United Nations

A/72/120

General Assembly

Distr.: General
28 June 2017

Original: English

Seventy-second session
Item 142 of the preliminary list*
Joint Inspection Unit

State of the internal audit function in the United Nations system

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the report of the Joint Inspection Unit entitled "State of the internal audit function in the United Nations system".

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* A/72/100.

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JIU/REP/2016/8

STATE OF THE INTERNAL AUDIT FUNCTION IN THE UNITED NATIONS SYSTEM

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Geneva 2016

EXECUTIVE SUMMARY

State of the internal audit function in the United Nations system
JIU/REP/2016/8

Internal audit is an established and integral part of the accountability structure in the United Nations system. Its traditional function is to assist executive heads in fulfilling their management responsibilities by conducting a risk-based programme of internal audits to provide assurance that governance, risk and control processes are operating effectively and efficiently, and to offer advice for improvement. Internal audit also plays a role in satisfying member States and governing bodies in the discharge of their oversight duties. In recent years, this has taken the form of direct accountabilities through more internal audit reporting being made available to governing bodies. The more recent entrenchment of oversight committees as key oversight mechanisms has further added to the effectiveness of the internal audit function by providing independent expert professional advice and support.

Main findings and conclusions

Internal audit is a well-recognized and utilized function, which needs to be further capitalized on by governing bodies and donors for assurance on governance, internal control and risk management processes in United Nations system organizations. With the support of the independent oversight committees, internal audit can play a central role in helping organizations and stakeholders make sense of and arrive at useful conclusions from the array of oversight information available to them.

The internal audit function is often housed with other independent oversight functions, such as investigation, inspection and evaluation, and this is a sound approach for many United Nations organizations. These arrangements must be carefully constructed, based on organizational need, to maximize efficiencies and synergies across oversight functions, while maintaining the independence of internal audit. Heads of internal audit/oversight are encouraged to support the strengthening of enterprise risk management, internal control and results-based management frameworks through audit and advisory work in these areas.

Internal audit services, particularly smaller ones, look for ways to implement internal audit in the most cost-effective manner, with some relying on the services of other organizations. These services, particularly when obtained from other United Nations entities, can be effective and of good value. However, audit outsourcing arrangements must be carefully managed, as the responsibility for the internal audit function must remain internal to the organization.

Internal audit services across United Nations system organizations are well situated to carry out their responsibilities through the establishment of effective working relationships with the executive heads. However, it is through its reporting relationship with governing bodies, either directly or through the oversight committees, that internal audit derives a strong source of independence, and this may be an area requiring more attention. Governing bodies must be provided with adequate means to implement appropriate conditions for internal audit independence. This includes approval of the internal audit charter; review of the annual report of the internal audit service; and access, upon request, to all internal audit reports. It also includes seeking the advice of the oversight committee with respect to the completeness of the internal audit plan, the sufficiency of its budget, and soundness of staffing decisions regarding the head of internal audit/oversight position (or Chief Audit Executive). While oversight by governing bodies of internal audit does frequently occur in practice, such oversight has to be institutionalized in organizational rules and regulations and in the internal audit charter.

Limiting the term of the head of internal audit/oversight is another means to ensure independence and objectivity of the function, and avoid conflicts of interest. Recognizing the challenges of a frequent turnover of heads of internal audit/oversight, particularly in smaller internal audit services, organizations are encouraged to find a staffing model that suits their operational requirements, while still ensuring a sufficient degree of rotation of heads of internal audit/oversight at least every five to seven years.

As internal audit services mature, it is important to document and articulate an internal audit strategy that is aligned with that of the organizations served. Such a strategy would provide direction for the size and resourcing needs of the internal audit service, the type of auditing services to be offered and how the service may or may not be combined with other independent oversight functions, such as investigation, inspection or evaluation. The strategy should be developed by the head of internal audit/oversight in close consultation with the oversight committee and the executive head. A periodic review of the strategy would provide the opportunity to reconfigure the internal audit function to suit changing organizational needs.

Annual reporting on internal audit results is a practice that is well institutionalized in United Nations system organizations. Consolidated reporting and analysis of common themes emanating from oversight work has been found to be of good value and is particularly useful in the resolution of recurring issues.

Increasing the use of information technology in audit processes offers opportunities for enhancing value and reducing costs. Employing data analytics allows the automation of routine procedures and can greatly expand the breadth and scope of audit coverage. Many organizations have also been able to use information technology (IT) auditing techniques to conduct remote audits in situations where security issues or cost considerations restrict the ability to perform on-site fieldwork.

Both executive heads and governing bodies of the organizations are encouraged to ensure and enhance the independence of their internal audit services through the provision of sufficient resources. Underfunding may pose a threat to independence and many stakeholders across the United Nations system are of the opinion that internal audit budgets are inadequate. Lack of funding limits the ability to hire qualified staff necessary to conduct high-quality audit work. It also restricts the ability to conduct a sufficient quantity of high-quality audits to address the high-risk areas identified in the internal audit plan.

Internal audit services have made good progress in achieving professional auditing standards. This is demonstrated by achieving a passing grade in an external quality assessment, as mandated by the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Most large and medium-sized organizations have achieved this important milestone and those organizations that have not, are strongly encouraged to undertake such an assessment as soon as possible, and to ensure that they are able to achieve a grade of "generally conforms". This qualification sends an important message to external stakeholders, including donors, about the quality and reliability of the internal audit function in United Nations system organizations.

It is essential that internal audit services establish internal quality control and performance management processes on an ongoing basis. These are part of the professionally mandated internal quality assessment programme of IIA, with reporting to the executive head and the oversight committee on results.

It is also necessary to ensure that staffing and staff performance management processes reinforce the objectivity of internal audit, while recognizing the need to operate within the specific environments and required procedures of the United Nations system organizations. Objectivity is enhanced through regular "code of conduct" and "conflict of interest" reviews of all professional internal audit staff, as well as ensuring the hiring of qualified internal auditors. It is also essential to have a gender balance among heads of internal audit/oversight, where women are currently underrepresented. In this respect, the development of strategic staffing plans to identify future professional requirements and succession planning for key positions would be helpful. Overall, it is essential to ensure that adequate plans are defined and resources are allocated to achieve long-term goals with respect to staffing, training and professional certification.

The practice of preparing an annual report on internal audit activities and results is an established and good practice of all internal audit services. The annual report that is prepared for and presented to the governing body, is a critical accountability and governance mechanism for the function. Heads of internal audit/oversight in the United Nations system are encouraged to ensure that annual reporting provides comprehensive views on oversight that will help executive heads and governing bodies make better sense of the range of oversight information available to them.

Internal audit is intended to provide a useful service to executive heads and assurance to governing bodies. However, the prevalence of public disclosure of internal audit reports, notwithstanding the protection of highly sensitive issues, has made audit reporting an increasingly delicate matter. It is imperative that governing bodies be given access, upon request, to all internal audit reports. The advantages and disadvantages of public disclosure need to be carefully examined and evaluated by the executive heads and the governing bodies on an organization-by-organization basis.

Executive heads need to institute effective management practices to ensure that oversight recommendations are effectively followed up and action plans are successfully concluded. Completion statistics and results of management actions taken in response to internal audit should be reported periodically to the governing body.

A notable achievement across the United Nations system in recent years has been the establishment of independent oversight committees in large and most medium-sized organizations. These committees play a key role in advising and supporting internal audit activities and in assisting governing bodies by providing independent advice. Organizations that have not yet established such a committee are encouraged to find the ways and means to gain access to this key governance mechanism and advisory service.

There is a need for an institutionalized role for the governing bodies with respect to the oversight committees. It is recommended that the governing body review and approve the oversight committee charter, and that the role of the committee be formalized in the organization's rules and regulations. The governing body must also be informed about the selection of oversight committee members and be given the opportunity to comment on their performance. The annual report of the oversight committee is an important accountability document that includes advice on the effectiveness of the internal audit function, and it should be tabled to the governing body with the Chair of the oversight committee present to answer questions.

Internal audit in United Nations system organizations is well served by the United Nations Representatives of Internal Audit Services (UN-RIAS) — a strong network of heads of internal audit/oversight — that meets in organized forums to share good practices and establish guidance for internal audit in the international public sector. Participation in UN-RIAS is funded through the budgets and voluntary efforts of the individual internal audit services, which are often overstrained to meet the demands of their own internal audit plans. Executive heads should ensure that funding is made available to individual internal audit services, on the basis of a business case, to facilitate their full participation in UN-RIAS activities.

Finally, through the efforts of UN-RIAS and individual heads of internal audit/oversight, joint auditing initiatives have been well established to support joint programme initiatives. Through UN-RIAS, this work has included the development of joint auditing guidelines, as well as the establishment of an annual risk-based audit plan for joint audits. However, joint and collaborative audits are generally funded from existing internal audit budgets, which are strained to meet the forecast need. It is recommended that appropriate resources be budgeted for all joint and collaborative audits to allow internal audit services to provide effective oversight of joint programme initiatives.

The recommendations in this report are intended to strengthen an already sound internal audit function in the United Nations system organizations. These recommendations support and complement those of previous Joint Inspection Unit reports dealing with internal audit. Further views on the outlook for internal audit can be found in chapter IX of the present report. It is recognized that small organizations will need to address these pragmatically, taking into account the context and size of the organization.

Recommendations

1. Governing bodies should direct executive heads of United Nations system organizations to ensure that their heads of internal audit/oversight and oversight committee Chairs attend the meetings of the governing bodies at least annually and are given the opportunity to respond to questions raised about their respective annual reports.

2. Executive heads of United Nations system organizations should involve the oversight committees and consult with the governing bodies in the hiring of the heads of internal audit/oversight, and in the termination of their tenure.

3. In consultation with the executive heads and the oversight committees, the heads of internal audit/oversight of United Nations system organizations should develop, if they have not yet done so, internal audit strategies in order to provide vision and direction as to how internal audit should be strategically positioned within their organizations and operationalized to achieve their mandates, no later than December 2018, with periodic updates thereafter.

4. Heads of internal audit/oversight of United Nations system organizations who have not yet done so should consolidate in their annual/periodic or other report findings of recurring issues emanating from individual internal audit reports that cut across various

offices, units or departments so as to enable the executive heads to systematically address them.

5. Executive heads of United Nations system organizations should ensure that their internal audit services have adequate financial and human resources to expand the use of information technology (IT) auditing techniques, and to employ, as appropriate, advanced data analytics and remote auditing, with a view to leveraging technology to provide more economical and comprehensive audit coverage.

6. Executive heads of United Nations system organizations, on the advice of their oversight committees, should allocate adequate financial and human resources to the internal audit services to ensure sufficient coverage of high-risk areas and adherence to established auditing cycles, as identified by the heads of internal audit/oversight during risk-based audit planning.

7. Executive heads of United Nations system organizations that have not yet done so should ensure that their heads of internal audit/oversight continue to conduct external quality assessments of their internal audit services, in line with the Institute of Internal Auditors (IIA) Standards, at least every five years, or more frequently if a "generally conforms" grade has not been achieved, and should share the results with the governing bodies and, as appropriate, by public reporting. Those internal audit services that have not yet reached a conformity rating should ensure that it is achieved by December 2018.

8. Executive heads of United Nations system organizations that have not yet done so should provide adequate funding for professional development, as requested by the heads of internal audit/oversight, including coverage of costs for maintaining professional certification, with key performance indicators established to monitor training and certification goals for internal audit staff.

9. Governing bodies of United Nations system organizations should ensure that the conditions for effective, independent, expert oversight committees are in place, and that the committees are fully functional in line with previous Joint Inspection Unit (JIU) recommendations, as reinforced in this report.

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ABBREVIATIONS

CEB	United Nations System Chief Executives Board for Coordination
ERM	Enterprise Risk Management
GAIN	Global Audit Information Networking
HLCM	High-Level Committee on Management
IA-CM	Internal Audit Capability Model
IAAC	Independent Audit Advisory Committee
ICF	Internal Control Framework
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IT	Information Technology
KPI	Key Performance Indicator
OECD	Organisation for Economic Cooperation and Development
OIOS	United Nations Office of Internal Oversight Services
RBM	Results-based Management
RIAS	Meeting of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions
SIC	Statement of Internal Controls
UN-RIAS	United Nations Representatives of Internal Audit Services
UNDG	United Nations Development Group
UNEG	United Nations Evaluation Group
WBTS	Web-based tracking system (JIU)

I. INTRODUCTION

1. In line with its strategic framework for the period 2010-2019 and the prioritization of issues of strategic importance to the United Nations system, the Joint Inspection Unit (JIU) included in its programme of work for 2015 a review of the state of the internal audit function in the United Nations system.[1]

2. The Institute of Internal Auditors (IIA) defines internal auditing as follows: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."[2]

3. Internal audit is an established and integral part of the accountability structure in the United Nations system. Its traditional function is to assist executive heads in fulfilling their management responsibilities by conducting a risk-based programme of internal audits to provide assurance that governance, risk and control processes are operating effectively and efficiently, and to offer advice for improvement. Internal audit also plays a role in satisfying member States and governing bodies in the discharge of their oversight duties. In recent years, this has taken the form of direct accountabilities through more internal audit reports made available to governing bodies.

4. Several factors are shaping the state of affairs of the internal audit function and are key drivers of this review:

- The activities of the United Nations organizations have expanded greatly in terms of complexity, volume and geographical spread. Development, security and humanitarian assistance-oriented organizations are often operating in the field in complex and unstable environments and in situations of emergency, conflict, war and weak governance structures. Their operations are decentralized and their expenditures significant. In 2013, overall annual expenditure of United Nations system organizations amounted to more than USD 42 billion.[3] Together, these factors expose the United Nations system to high financial, security and reputational risks;
- Increasing demands by member States and scrutiny by the public, as well as continuing financial constraints, put pressure on United Nations organizations to achieve more with fewer resources and greater accountability, transparency and effectiveness. United Nations organizations are public organizations that operate on the basis of contributions, trust and confidence of their stakeholders and the public at large. Maintaining effective corporate governance in the United Nations system is contingent upon robust oversight functions, including, in particular, internal audit;

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[1] Regarding the terminology used in the present report, the terms "internal audit function" or "function" will be used throughout the report when referring to the functional role of internal auditing, while the terms "internal audit service" or "service" will be used when referring to an individual internal audit office within a given United Nations organization.

[2] See Institute of Internal Auditors (IIA), *International Professional Practices Framework*: the definition of internal auditing and the *International Standards for the Professional Practice of Internal Auditing (Standards)* are mandatory elements. In the present report, IIA Standards (2012) refers to the October 2012 version of the Standards.

[3] See United Nations System Chief Executives Board for Coordination (CEB), www.unsceb.org. This figure is based on the total expenditure for each agency, calculated on the basis of all expenditure categories. It does not account for any negative values (reversals) reported by organizations.

- The establishment and maturation of oversight committees in the United Nations system have been consequential developments in recent years. Following the establishment of the first wave of oversight committees around 2006,[4] there is a need today to reinforce their function and role in support of the internal audit function;
- Finally, in addition to the changing context and external demands and requirements, including the public disclosure of internal audit reports, the internal audit function in the United Nations system has evolved its practices and matured professionally. The present review will reflect upon these developments as well.

5. Under these circumstances, an effective internal audit function, as one of the main pillars of good governance, has become more important than ever.

A. Previous related Joint Inspection Unit reports

6. Because of the importance of oversight as a key accountability mechanism in the United Nations system, JIU has produced several reports over the last decade relating to general or specific oversight functions (audit, investigation, evaluation and ethics); two of these reports — Oversight lacunae in the United Nations system (JIU/REP/2006/2), and The audit function in the United Nations system (JIU/REP/2010/5) — closely examined the internal audit function.[5] The recommendations contained in these two reports have had relatively high acceptance and implementation rates.

7. The 2006 report contained 17 recommendations, 9 of which are directly relevant to the present review. The 2010 report included 18 recommendations, 14 of which are relevant to the present review. The acceptance rate of the 2006 recommendations was 65 per cent with a reported 94 per cent implementation rate, while the acceptance rate was 85 per cent and implementation was reported at 93 per cent for the 2010 recommendations.

8. The present report considered the issues raised and the recommendations contained in the two above-mentioned reports in the light of the evolution of the professional practice of internal audit within the United Nations system. Throughout the present report, reference is made, as applicable, to previous JIU recommendations, their implementation status and their relevance today. The recommendations of the present review complement and support those of the 2006 and 2010 JIU reviews.

B. Objectives, scope and methodology

9. In its strategic framework for 2010-2019, JIU announced its long-term objective of assisting governing bodies in meeting their governance responsibilities in respect of their oversight function, and providing the United Nations system organizations with concrete guidance and benchmarks so that they can have in place rigorous accountability principles, systems and mechanisms.[6] The JIU has been implementing that objective by reviewing individual elements of the United Nations oversight function. The present review is the latest in the series.

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[4] See JIU/REP/2006/2, recommendation 1.

[5] Other JIU reports have also covered oversight topics: The investigations function in the United Nations system (JIU/REP/2011/7); Ethics in the United Nations system (JIU/REP/2010/2); Accountability frameworks in the United Nations system (JIU/REP/2011/5); and Analysis of the evaluation function in the United Nations system (JIU/REP/2014/6).

[6] See A/66/34, annex I.

Objectives

10. The present review targeted three overarching objectives: (i) to assess the state of the internal audit function in United Nations system organizations at the time of the review (2015-2016); (ii) to determine whether the internal audit function meets the expectations of surveyed stakeholders and where it is perceived as adding value; and (iii) to assess the role of oversight committees, wherever they exist, in supporting internal audit.[7] In particular, the present review examines:

- The roles and services of the internal audit function, and whether and how its governance structures support independent and objective assurance and consulting activities;
- The state of affairs with regard to the effective functioning of internal audit services, i.e. professional skilled resources, quality assessment processes in place, communication and engagement with stakeholders, including through public disclosure of audit reports and follow-up of recommendations;
- The perceptions and expectations of major stakeholders with regard to the internal audit function and oversight committees;
- New and persistent challenges, areas for improvement in coordination with other assurance providers, inter-agency cooperation and joint auditing, good practices and lessons learned.

Scope

11. The scope of the review is system-wide. For the purposes of this review, the internal audit services in 22 United Nations system organizations and, where they exist, the oversight committees that support them were included.[8] For analytical purposes, the organizations have

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[7] An oversight committee is an independent expert advisory body. Within the United Nations system, various titles are used to refer to such a committee, including "audit committee" and "audit advisory committee". For the purposes of this report, the generic term "oversight committee" will be used. Out of the 22 United Nations organizations with internal audit services covered by this review, 18 have established oversight committees. For more information, see annexes I and VII.

[8] Of the 28 JIU participating organizations, 22 reported having their own internal audit services: Food and Agriculture Organization of the United Nations (FAO), International Atomic Energy Agency (IAEA), International Civil Aviation Organization (ICAO), International Labour Organization (ILO), International Maritime Organization (IMO), International Telecommunication Union (ITU), United Nations Secretariat, Joint United Nations Programme on HIV/AIDS (UNAIDS), United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Population Fund (UNFPA), Office of the United Nations High Commissioner for Refugees (UNHCR), United Nations Children's Fund (UNICEF), United Nations Industrial Development Organization (UNIDO), United Nations Office for Project Services (UNOPS), United Nations Relief and Works Agency (UNRWA), United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), Universal Postal Union (UPU), United Nations World Food Programme (WFP), World Health Organization (WHO), World Intellectual Property Organization (WIPO) and World Meteorological Organization (WMO). Of these, UNAIDS and UN-Women outsource their internal audit services to WHO and UNDP respectively. The World Tourism Organization (UNWTO) was found to provide very limited audit services and therefore does not feature in the full range of issues addressed in this review. Seven entities are departments or offices of the United Nations Secretariat and, as a result, their internal audit services are provided by the Office of Internal Oversight Services (OIOS): United Nations Conference on Trade and Development (UNCTAD), International Trade Centre (ITC), Office of the United Nations High Commissioner for Human Rights (OHCHR), United Nations Environment Programme (UNEP), United Nations Human Settlements Programme (UN-Habitat), United Nations Office on Drugs and Crime (UNODC) and UNHCR. For the purposes of this review, UNHCR, one of the largest organizations in terms of finances and workforce size, is treated as having an internal audit entity of its own; UNHCR's internal audit function has been outsourced since 1997 and is provided by a dedicated service in OIOS. Unless indicated otherwise, all percentage shares in this review are calculated on the basis of 22 internal audit services.

been grouped by size (large, medium and small), according to their overall budget (see annex V for details).[9] The data gathered for the review was predominantly from 2014 and 2015.[10]

12. The 2006 and 2010 JIU reports are referenced throughout the present review. Annex II provides details of the current status of implementation of the relevant recommendations made in 2010, according to the JIU web-based tracking system (WBTS) that was introduced in 2012, and further evidence gathered in this review.

Methodology

13. To assess the state of affairs of the internal audit function in the United Nations system, the Institute of Internal Auditing (IIA) Standards (2012) were used as a professional yardstick throughout the review.[11] Where applicable, the Standards were further interpreted taking into account the particularities of the United Nations system organizations. Good practices in other international and national public-sector organizations were also collected for further benchmarking.

14. In accordance with JIU standards and guidelines and its internal working procedures, the methodology used for the review included the preparation of terms of reference, a workplan and a preliminary desk review of available documentation. Data collection and analysis relied on both qualitative and quantitative methods, in particular a corporate questionnaire, perception surveys and interviews with stakeholders. Information gathered in the stakeholder surveys was used throughout the review, along with other data sources, to inform the analysis and conclusions.

15. The corporate questionnaire was sent to 23 organizations and received a response rate of 100 per cent. Together with the required documentary evidence collected, the responses to the questionnaire provided the majority of the quantifiable data for the review. In order to assess perceptions about the effectiveness of the internal audit function, specific surveys were addressed to seven key stakeholder groups, selected on the basis of their different perspectives, interests, level of expertise and degree of independence. They were:

- *Executive heads*: To obtain their views as key stakeholders and primary recipients of internal audit services;
- *Governing body*[12] *members*: key clients of internal audit functions, who may rely on the work of internal audit to gain assurance about the effectiveness of an organization;
- *Heads of internal audit/oversight*:[13] The functional managers responsible for the delivery of internal audit services;
- *Internal audit staff*: To understand their views of the strengths and challenges of the internal audit service within their respective organizations;

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[9] The practice of grouping organizations by size for analytical purposes was used in JIU/REP/2006/2, (chapter III (C)) and JIU/REP/2010/5 (chapter II (I)).

[10] Percentages in tables and graphs may not always add up to 100 due to rounding.

[11] See Institute of Internal Auditors, *International Standards for the Professional Practice of Internal Auditing (Standards)*, 2012. The IIA Standards are broadly recognized guidelines for the internal audit practice in the private and public sectors, and have been recognized by the United Nations internal audit services since 2002.

[12] This term will be used throughout the report to refer to the highest level member State body.

[13] This term will be used throughout the report to refer to the chief audit executive as per the IIA Standards. Within the United Nations system, different titles are used (see annex I for details).

- *Senior managers*:[14] Clients of internal audit who have regular and direct interaction with internal audit during the audit process;
- *Oversight committee members*: Because of their subject matter expertise and their role in advising executive heads and governing bodies on the effectiveness of internal audit;
- *External auditors*: For their perceptions of the role, effectiveness and added value of the internal audit function as professional peers to internal audit.

16. Annex VI contains details on the survey response rates for these stakeholders. In order to further explore specific issues, interviews were conducted with numerous selected stakeholders.

17. Interviews were also held with the heads of internal audit/oversight of international organizations outside the United Nations system and with the audit offices of two national governments so as to exchange views and identify good practices. JIU conducted a structured analysis of the collected data. Annex III provides further information about the methodology and data collection methods used for the review.

18. Each of the seven stakeholder groups surveyed is an important audience for this report. Given their different information needs and perspectives, at times striking a balance between the level and the nature of detail provided was needed.

19. The Inspectors express their appreciation to all those who assisted them in the preparation of the present report, particularly those who participated in the surveys and interviews and so willingly shared their knowledge and expertise.

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[14] For the purposes of this survey, a list of representative senior management functions together with senior leadership representatives was drawn up and the survey was shared with the respective incumbents.

II. INTERNAL AUDIT IN THE OVERSIGHT ARCHITECTURE

20. The internal audit function in the United Nations system does not exist in a vacuum; it is impacted by its environment and organizational context, which shape the overall oversight architecture. This architecture consists of various internal control activities (first line of defence), management oversight activities (second line of defence) and independent assurance activities (third line of defence), of which internal audit is a key part) (see annex IV for details).[15] The effectiveness of the second line of defence strengthens the organization's governance, risk and control, thereby affecting the potential and role of internal audit. The performance of the internal audit function can also be impacted by its organizational setting, including interaction with other oversight functions, such as inspection, evaluation, investigation and ethics, and the extent to which internal audit services are sourced internally, externally or through co-sourcing.

A. The second line of defence and internal audit

21. The establishment of second line of defence controls is a recent development in the United Nations system organizations that can fundamentally improve the ability and role of internal audit, as well as the organizations' way of doing business. A less mature second line of defence may have an impact on the results, risk and control processes of the organizations, and consequently on the internal audit function, as more of its resources would be spent in auditing first-line management controls through compliance testing. For United Nations system organizations operating in high-risk environments and requiring sound control over the funds entrusted to them, a mature second line of defence is important.

22. While the first and third lines of defence are well entrenched in the United Nations system organizations, the review found that the second line of defence, being a more recent addition, was generally less developed. Responses to the JIU questionnaire and the interviews conducted suggest that maturity levels of the second line of defence vary greatly depending on organizational size, governance arrangements, management culture and budgetary constraints. In many organizations, the establishment of a second line of defence is still in the early stages of development and its effective functioning is just beginning to add value to management oversight processes.

23. Previous JIU reports that addressed some components of the second line of defence provide further in-depth information and general analysis.[16] In general terms, among the 22 organizations with established internal audit services, results-based management (RBM) in most of them was more developed, whereas enterprise risk management (ERM) and internal control frameworks (ICF) were less mature:

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[15] The "Three Lines of Defence" model was originally developed by the Federation of European Risk Management Associations (FERMA) and the European Confederation of Institutes of Internal Auditing (ECIIA) in 2011. See FERMA/ECIIA, "Monitoring the effectiveness of internal control, internal audit and risk management systems", Part 2: Implementing the 8th EU Company Law Directive – Article 41 -2b for Senior Management, 14 December 2011. The model was adopted by CEB in 2014. About half of the organizations surveyed in 2015 for this review reported that they had adopted this model. In a few organizations, the internal audit services have led an initiative for its adoption.

[16] See Review of enterprise risk management in the United Nations system: Benchmarking framework (JIU/REP/2010/4); Accountability frameworks in the United Nations system (JIU/REP/2011/5); Results-based management in the United Nations in the context of the reform process (JIU/REP/2006/6); Results-based management in the United Nations system (JIU/REP/2016 forthcoming).

- In their responses to the JIU questionnaire, 20 organizations indicated that they had an RBM process in place, and of these, the majority had established a management function to monitor organizational performance;
- With respect to ERM, 20 organizations reported having an ERM framework; however, risk reporting throughout the organization was required in 14 organizations and only 9 organizations prepared regular risk reports for their governing bodies. A "risk appetite statement"[17] — an integral part of a strong ERM and to some extent a driver of the level of internal audit services required — existed in only 7 organizations;
- Fourteen organizations reported having an ICF in place and, out of those, only nine had instituted an annual "statement of internal controls" — a statement on the status of internal controls that have been put in place and the extent to which they are being complied with on the basis of a written attestation by senior management and the executive head.

24. Across the United Nations system organizations there exists a range of practices and maturity in second lines of defence. In order for internal audit to become more mature and strategic, it is ideally supported by strong first and second lines of defence. **Executive heads are encouraged to ensure that there is continued focus on strengthening these key elements of management oversight — the second line of defence (RBM, ERM and ICF), until an adequate organizational level of maturity is reached.**

25. Internal audit under the IIA Standards (2012) has an obligation to assist the organizations that they serve to improve the quality of their governance (including performance management), risk management and internal control processes.[18] When the second line of defence is strong and well-developed, it may enable the internal audit function to:

- Provide a higher level of overall assurance;
- Reduce the need to undertake detailed compliance audits of the various internal controls that constitute the first line of defence, thereby providing greater efficiency and requiring fewer resources;
- Expand audit services into more strategic areas, including performance auditing, and extend the coverage of activities and operations over which internal audit can provide effective oversight.

26. By virtue of its mandate and through its audit and advisory services, internal audit is well positioned to encourage organizations in developing and maturing their second line of defence. A stronger second line of defence would provide room for internal audit to redirect some of its resources from compliance into more value-added areas. **Heads of internal audit/oversight with the support of executive heads should promote the organizational strengthening of management oversight — the second line of defence — by means of performance and advisory engagements, particularly in the areas of RBM, ERM and ICF.**

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[17] Risk appetite has been defined as "the amount of risk, on a broad level, an organization is willing to accept in pursuit of value". See Larry Rittenberg and Frank Martens, "Enterprise risk management: Understanding and communicating risk appetite" Committee of Sponsoring Organizations of the Treadway Commission (COSO), January 2012, page 1.

[18] See IIA Standard 2110 - Governance; Standard 2120 - Risk Management; and Standard 2130 - Control.

B. The third line of defence and internal audit

27. The organizational structure of an internal audit service must contribute to independence. This includes freedom from conflicts arising from the assignment of other oversight activities to the function. It also entails ensuring that the overall responsibility for the internal audit function is appropriately placed within the organization.

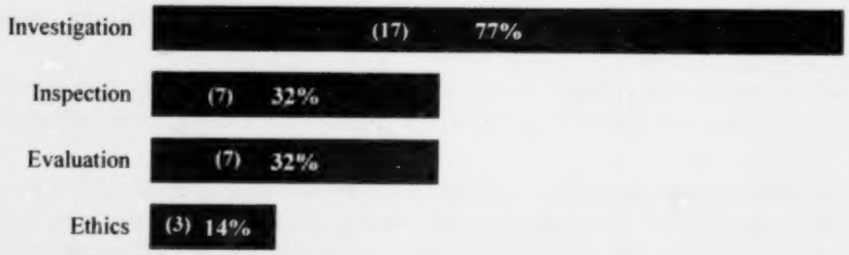
Combining third line of defence functions

28. In the traditional three lines of defence model promulgated by IIA, the third line of defence consists solely of the internal audit function.[19] In United Nations organizations, other oversight functions such as evaluation, investigation and inspection are generally considered to be part of this third line of defence, as they are also designed to help the executive head and the governing body in discharging their management and oversight responsibilities, and they operate with a relatively high degree of organizational independence.

29. Many United Nations organizations have found it effective to group internal audit with one or more of the elements of the third line of defence under the head of oversight. In fact, JIU/REP/2006/2 on oversight lacunae recommended grouping four oversight functions (audit, inspection, investigation and evaluation) together. As shown in figure 1 below, the most common function grouped with internal audit is investigation, and the least common is ethics. In most United Nations organizations that have investigation and inspection functions, these functions are grouped with internal audit under one head of oversight (see annex I).

Figure 1: Grouping of internal audit with other functions[20]

Is the internal audit service grouped with one or more of the following functions under one oversight head?



Source: JIU 2015 questionnaire

30. The reasons for combining these functions are often related to enhanced efficiency and synergies, better understanding of the organization, coordination and the ability to report holistically on the results of oversight activities. In smaller organizations or cost-constrained environments, the efficiencies gained from having these functions under one oversight directorship may be the deciding factor. From an internal audit perspective, it is essential that any

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[19] See IIA, "The three lines of defense in effective risk management and control", IIA position paper, January 2013, p. 2: The three lines of defense model.

[20] UN-Women indicated that its internal audit function was carried out by UNDP under a service level agreement; UNHCR internal audit services are provided by OIOS, while UNHCR Policy and Audit Coordination Unit of the Division of Financial and Administrative Management provides audit coordination and support. As such, it is not grouped with any of the listed functions in the present review; UPU indicated that its internal audit function was outsourced and coordinated through the governance, risk controlling and management information systems programme.

additional activity resulting from organizational groupings should not cause any threat to the independence and objectivity of internal audit.

31. Some organizations combine the responsibility for ethics with internal audit. For example, in UNIDO and IMO, the head of internal audit/oversight acts as the ethics officer, and in UNRWA, the ethics officer reports administratively to the head of oversight, who is also responsible for internal audit. While this may be justified in small organizations for practical reasons, it is not optimal. In particular, it can pose conflict if the head of internal audit/oversight has to subsequently review or investigate allegations received as ethics officer, which would limit avenues of restitution for complainants.

32. The combining of internal audit with evaluation functions was the case in approximately one third of the oversight groupings (see figure 1). In most instances, auditors took the leadership position as heads of internal audit/oversight.[21] Interviewees provided competing opinions on the arrangement, with some indicating a potential risk of blurred roles and overlap, in particular when it comes to performance audits, while others stressed the value of flexibility with regard to assigning staff. On the other hand, day-to-day coordination of activities and audit/evaluation planning generally seemed to work well.

33. One area of concern that was noted in the interviews was the assignment of individual audit staff to more than one oversight function. This can lead to confusion for management in differentiating the various oversight functions, and can limit the availability of staff for future assignments. In order to best preserve the independence and objectivity of audit staff, when combining internal audit with other oversight functions, audit staff members should, to the extent practical, remain assigned to their function only. When assigning audit staff to more than one function, conflict of interest in their duties needs to be avoided.

34. **When making decisions on combining internal audit with other oversight functions, executive heads should consider organizational synergies and efficiencies, and the need for safeguards necessary to protect internal audit independence and to avoid conflicting duties among staff.**

Outsourcing and co-sourcing options

35. In practice, the executive head, optimally in consultation with the oversight committee, determines the size, structure and composition of the internal audit service. This determination should take into account the size and available resources of the organization, its overall maturity, risk profile, degree of decentralization, as well as the complexity and span of its operations. An important consideration is whether to use internal or external resources or some combination thereof for the internal audit.

36. While most of the internal audit services in the United Nations system are provided by staff, the majority of internal audit services reported that they used external resources on a regular basis to complete their internal audit plan. There is a range of outsourcing (full and partial outsourcing), as well as co-sourcing options (long-term co-sourcing, short-term subcontracting) that use external resources.[22]

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[21] Compare also JIU/REP/2014/6 on analysis of the evaluation function in the United Nations system.

[22] Full outsourcing is when all internal audit services, including that of the head of internal audit/oversight, come from another organization on an ongoing basis; partial outsourcing is when certain services are contracted out on an ongoing basis, but the head of internal audit/oversight is a senior staff member; co-sourcing is when mixed teams of staff and external resources work together on projects, and arrangements are usually long term; subcontracting is for a particular engagement when individual contractors work under the direction of staff for specific projects.

37. An outsourcing arrangement can be practical for small or new internal audit services to cost-effectively obtain services and capitalize on the professional practices and resources of a larger internal audit service. Advantages of outsourcing include the ability to benefit from established quality assurance and improvement programmes, which can be time-consuming to develop and implement. They also include access to well-developed internal audit policy and procedures and to specialized auditing services, including information technology (IT) and computerized audit management systems. Outsourcing within the United Nations system provides enhanced value due to the similarities in processes and a shared context.

38. Half of the United Nations system organizations reviewed have established long-term or standing co-sourcing arrangements in order to gain access to extra professional resources. For example, the internal audit service in WFP has been able to maintain its delivery when positions are vacant and to hire specific expertise, such as IT, as a result of co-sourcing. Others, such as United Nations Population Fund (UNFPA), use co-sourcing arrangements for field office audits and for those in specific areas.

39. IT audit services are obtained by most internal audit services through subcontracting consultants owing to the high level of specialized expertise required for these types of services. Internal audit services face the challenge that such expertise is frequently unavailable among workforces with more general auditor profiles.

40. In JIU/REP/2006/2, it was recommended that for those organizations that manage resources of less than USD 250 million per biennium (or USD 125 million annually), internal audit services should be outsourced to any other organization in the United Nations system that has the capacity to respond.[23] However, in 2015, four of the five small organizations below this threshold continued to have in-house internal audit services, and one medium-sized organization above the threshold had an outsourced model. This suggests that the reasons for outsourcing are more complex than size.[24]

41. In the case of outsourcing, realizing cost-efficiencies was seen as a driving factor by some interviewees. By outsourcing, smaller organizations benefited from the investments that had been made with respect to the development of policies and procedures, the implementation of audit software, and the existence of internal audit quality assurance programmes. The responsibility of hiring and training staff is also delegated to the other organization.

42. However, a significant advantage to maintaining an internally resourced service is the value-added of a head of internal audit/oversight with an in-depth degree of organizational knowledge and clear responsibility for the function. This appears to have been a recognized value for WMO, ICAO, ITU and IMO, as they have continued to fund in-house internal audit services. The biggest ongoing challenge for small internal audit services is the lack of resources and economies of scale.

43. One of the most important considerations for executive heads with respect to outsourcing internal audit functions is how to ensure that responsibility for oversight remains clearly within the organization. IIA believes that oversight and responsibility for the internal audit activity cannot be outsourced and that, in fully outsourced arrangements, it is necessary to assign an in-house liaison, preferably at the executive or senior management level, to "coordinate" the

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[23] See JIU/REP/2006/2, recommendation 14.

[24] UN-Women and UNAIDS have chosen to outsource their internal audit services to other United Nations organizations (UNDP and WHO, respectively); and one small organization (UPU) has decided to tender and outsource internal audit services to the private sector.

function.[25] **The executive heads of UN-Women, UNAIDS, UPU and other United Nations organizations outsourcing internal audit arrangements should ensure that the accountability and responsibility for internal audit is maintained within their organizations. This responsibility should, if applicable, be delegated to an existing senior-level staff member with no operational management duties so as to ensure the independence of the internal audit function.**

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[25] See IIA, "The role of internal auditing in resourcing the internal audit activity", IIA position paper, January 2009, p. 3.

III. GOVERNANCE AND ORGANIZATIONAL STRUCTURES THAT SUPPORT INDEPENDENCE AND EFFECTIVENESS

44. Independence is a key concept for the functioning of internal audit. However, in practice, it needs to be applied within an organization's governance structure, which can be different in private- and public-sector organizations. This chapter adopts the IIA definition of internal audit independence as applicable in the particular context of the United Nations system organizations.

45. An effective audit function in the United Nations system strengthens governance by increasing the ability of executive heads and member States to hold officials accountable and to promote credibility, equity and high ethical standards. In order to fulfil that role, it is essential that a number of conditions of independence are met in the governance and organizational structures that sustain the internal audit function.

A. Internal audit independence and effectiveness

46. Independence is a crucial and sensitive attribute to ensure that the internal audit function can objectively carry out its mandate and responsibilities, lending it credibility in the view of the executive head and senior management, as well as governing body members.

47. Independence is defined by IIA as "freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".[26] In United Nations system organizations, this is generally achieved by the ability of internal audit to report directly to the highest level of the organization and to have a functional reporting relationship with the governing body. Any impediment to the functional reporting of internal audit to the governing body could potentially be detrimental to the independence of the function.

48. According to IIA, functional reporting to a governing body may include: (i) approval of the internal audit charter, the risk-based audit plan and the internal audit budget; (ii) receiving reporting on the performance of internal audit; (iii) being provided with opportunities to enquire of management and internal audit about audit results, as well as any limitations on the scope of work or resources; (iv) approval of the appointment and removal of the head of internal audit/oversight; and (v) approving remuneration.[27]

49. IIA interpretation of functional reporting requires some adaptation to the context of the United Nations system, where public-sector type boards of directors do not exist. Because of political and practical considerations, aspects of functional reporting to the governing bodies in the United Nations system may be delegated to oversight committees that have the expertise and the independence to take on these responsibilities and duties. For the purposes of the present review, functional reporting directly to a governing body in the context of the United Nations system organizations is therefore understood to include: (i) approval of the internal audit charter by the governing body and its inclusion in the organizational rules and regulations; and (ii) submission of the internal audit annual report to the governing body, with the head of internal audit/oversight present to answer any questions.

50. Based on the results of the JIU survey (see annex VI), the Inspectors note that the perception of internal audit independence is particularly notable among heads of internal audit/oversight and executive heads. Internal audit management and staff reported a high degree of access to people, documents and information and there was no perception of pressure to change reports, opinions and recommendations. However, unless conditions of independence are institutionally anchored

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[26] See IIA Standard 1100 – Independence and Objectivity.

[27] See IIA Standard 1110 – Organizational Independence.

(see sect. B below), the risk of infringement remains. Previous JIU reports have made a number of recommendations in this regard. Oversight committees also promote internal audit independence by providing advice and guidance to executive heads and governing bodies, as will be discussed in detail in chapter VII of the present report.

51. Other facets of independence are covered elsewhere in this report, including, in particular, organizational/administrative/structural independence, which refers to the ability of the internal audit function to carry out and report on any audit engagement deemed necessary (see chap. III) and professional/technical independence of individual auditors, which refers to the professional standards and ethics of internal auditors in conducting their work (see chap. V).

B. Internal audit conditions of independence and effectiveness

52. The conditions of independence and effectiveness for the internal audit function relate to the following areas: (i) approval of the internal audit charter; (ii) approval of the risk-based audit plan and the internal audit budget; (iii) reporting on the performance and independence of internal audit; (iv) enquiries about audit results and any limitations on scope or resources; (v) appointment and removal of the head of internal audit/oversight.

Internal audit charter

53. The internal audit charter is the formal document that defines the purpose, authority and responsibility of an internal audit service. All 22 internal audit services in the United Nations system organizations reviewed have internal audit charters.

54. According to IIA Standards (2012), the internal audit charter must be approved by senior management and the governing body.[28] In JIU/REP/2010/5, it was recommended that the internal audit charter be reviewed at least every three years; that the results be presented to the executive head and the oversight committee; and that any proposed changes be presented to the governing body for approval.

55. Although internal audit is specified as a requirement in the rules and regulations of all 22 organizations with internal audit services reviewed, around 60 per cent of them currently do not require that the governing body approve the internal audit charter.[29] This is a condition of internal audit independence, according to IIA, and one that is appropriate for adoption within the governance structure of the United Nations system, as previously recommended in JIU/REP/2010/5.[30]

56. **In addition to approval by the executive head, it is essential that the internal audit charter be approved by the governing body and that such approval be appropriately documented in the minutes of the governing body meetings. In order to provide advice and guidance on the quality and relevance of the internal audit charter to the executive head and governing body, the oversight committee should be substantively involved in the review process.**

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[28] See IIA Standard 1000 - Purpose, Authority and Responsibility.

[29] Internal audit charters for the following organizations are not approved by the governing body: UNRWA, UNESCO, UN-Women, WHO, UNAIDS, UNDP, UNIDO, UNICEF, WFP, UNFPA, UNOPS, ITU and WMO.

[30] See JIU/REP/2010/5 recommendation 1.

Review of internal audit plans and budgets

57. With regard to the review of the internal audit plan and budget, there is a need to adapt the IIA Standards interpretation to the particular context of the United Nations system organizations. According to IIA, internal audit organizational independence is effectively achieved through a functional reporting relationship to governing bodies, which the IIA interprets to include an approval role for the governing body with respect to the internal audit plan and the ability to enquire as to the sufficiency of the internal audit budget, as critical elements of independence.[31]

58. In the context of the United Nations system, assigning an approval role to the governing bodies with respect to the annual internal audit plans and budgets is neither practical nor called for. In particular, an approval role by the governing body, which only meets a few times a year, would not allow for the necessary timeliness in the implementation of the internal audit plan, which may necessarily require adjustments in the course of the year owing to changing risk profiles or events. It would also not provide the flexibility necessary to adjust the audit plan in response to changing audit requirements or external developments, for example, to avoid duplication with the external audit plan. More fundamentally, any departure from the risk-basis of the audit plan or any room for unwarranted preparation by auditees, owing to public disclosure of the plan, needs to be avoided.

59. In fact, according to the responses to the JIU questionnaire, none of the United Nations system organizations with internal audit services reported a role for the governing body regarding approval of the internal audit plan.[32] In the majority of the organizations, the internal audit plan is approved by the executive head. In a few other organizations, no approval is required as the internal audit plan is approved directly by the head of internal audit/oversight;[33] this arrangement provides the highest degree of independence for the internal audit function.

60. It would be good practice for governing bodies to receive, at the minimum, an annual overview of the risk-based internal audit plan, including an explanation as to how risks were assessed in the development of the plan and how budgetary resources were apportioned to address the risks identified. The overview should also include an indication of the appropriateness of the budget. More than half of the internal audit services reviewed already include a section in their annual reports that provides some details on their risk-based audit planning. This should be accompanied by information concerning human and budgetary resources assigned to the internal audit service for the consideration of the governing bodies. This information could either be a separate item or included in the annual report by internal audit or the oversight committee to the governing body.

61. Oversight committees play a key role in the assurance process by undertaking an expert review of the internal audit plans and budgets. They also assist in the governance process by providing their own independent advice and opinion to governing bodies and executive heads as to the sufficiency of the budgets and internal audit plans (see chap. VII).

Information on performance and independence

62. In JIU/REP/2010/5, it was recommended that in order to enhance accountability and transparency, the head of internal audit/oversight should provide an annual report to the governing body on the results of internal audit activity.[34] This recommendation satisfied IIA

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[31] See IIA Standard 1110 - Organizational Independence, interpretation.

[32] See chapter VII for a discussion on the role of oversight committees in supporting governing bodies, inter alia, in the review of internal audit plans.

[33] This is the case for three out of 22 organizations (14 per cent): ICAO, United Nations Secretariat and UNESCO.

[34] See JIU/REP/2010/5, recommendation 8.

requirements for performance information on internal audit and has been successfully implemented in the United Nations system.

63. In 2015, all 22 organizations with internal audit services reviewed were preparing a summary of the results of the execution of the internal audit plans as part of their internal audit annual reports. The JIU review of these reports noted that they all included, at the minimum, an overview of the main audit reviews and the key findings, a list of oversight reports issued and an update on the status of implementation of previous audit recommendations.

64. The annual report provides a critical opportunity for the head of internal audit/oversight to provide an explicit statement on independence to the executive head and the governing body. It is also a requirement of IIA standards for the head of internal audit/oversight to provide an annual confirmation to the governing body regarding the organizational independence of the function.[35] This statement should address any factors, including resources, which limit the effectiveness and independence of internal audit. According to the JIU review of the annual internal audit reports, around half of the internal audit services provide a statement on independence.[36] **Internal audit services that have not yet done so should follow the recommended practice by providing in their annual reports a comprehensive statement on independence, covering any factors that limit the independence and effectiveness of the internal audit function.**[37]

65. A final requirement supporting the statement on independence is the opportunity for the governing body to make direct enquiries of the head of internal audit/oversight. The Inspectors noted the good practice in many organizations, whereby the head of internal audit/oversight and the Chair of the oversight committee are present at governing body meetings to answer any questions pertaining to their annual reports, which fully satisfies the condition of organizational independence. Direct reporting of the audit function to the governing body is the case for 18 of the 22 internal audit services reviewed (82 per cent).

Recommendation 1

Governing bodies should direct executive heads of United Nations system organizations to ensure that their heads of internal audit/oversight and oversight committee Chairs attend the meetings of the governing bodies at least annually and are given the opportunity to respond to questions raised about their respective annual reports.

Staffing the position of head of internal audit/oversight

66. According to IIA, the governing body should have a role in the approval of the staffing decision for the position of head of internal audit/oversight.[38] In the United Nations system context, it may not be practical or appropriate for governing bodies to approve staffing decisions. However, governing bodies should, at a minimum, be formally informed of and given the opportunity to comment on and ask questions concerning staffing action in respect of the position of head of internal audit/oversight. The oversight committee, as an expert body on oversight issues, should play an active advisory role in this process.

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[35] IIA Standard 1100 - Organizational Independence.

[36] Organizations that include a statement of independence in their annual internal audit reports are FAO, UNDP, UNICEF, UNIDO, UNRWA, WFP, WIPO, United Nations Secretariat, UNFPA, WMO, UNAIDS and UN-Women.

[37] This reinforces JIU/REP/2010/5, recommendation 2 on independence of the function.

[38] See IIA Standard 1110 - Organizational Independence, interpretation.

67. In reviewing the internal audit charters, it was found that, in most cases, the authority to appoint and terminate the head of internal audit/oversight rested with the executive head; in the case of the United Nations Secretariat, the approval of the General Assembly is also required. In eight organizations, the head is appointed in consultation with the governing body, while in nine other organizations, the head is appointed in consultation with the oversight committee. In only a few organizations is the head of internal audit/oversight appointed in consultation with both the oversight committee and the governing body.[39]

Recommendation 2

Executive heads of United Nations system organizations should involve the oversight committees and consult with the governing bodies in the hiring of the heads of internal audit/oversight, and in the termination of their tenure.

Conditions of independence and effectiveness

68. Independence is necessary for internal audit effectiveness and for engendering credibility for the function. Previous JIU recommendations have addressed related issues in detail;[40] however, they have not yet been consistently implemented across United Nations system organizations.

69. **In line with the recommendations contained in JIU/REP/2010/5 and JIU/REP/2006/2 and with IIA Standards (2012), this review reaffirms that the following conditions are necessary for internal audit independence in the United Nations system organizations:**[41]

(a) Approval of the internal audit charter by the governing body;

(b) Provision by the oversight committee to the governing body of its views regarding the adequacy of the internal audit budget to carry out the internal audit workplan and address the identified high-risk areas;

(c) Ensuring that the governing body receives and has the opportunity to review the annual report of the internal audit service in the presence of the head of internal audit/oversight and that the report includes a statement by the head of internal audit/oversight regarding its organizational independence;

(d) Ensuring that oversight committees are involved in and governing bodies are consulted on the final decision regarding the appointment, renewal and termination of heads of internal audit/oversight.

70. **This review reiterates that executive heads of United Nations system organizations that have not yet done so, should ensure that the above-mentioned conditions that are of fundamental importance to the effectiveness of the internal audit function in the United Nations system organizations are implemented.**

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[39] For example WFP, FAO, UNESCO and ICAO.

[40] See JIU/REP/2006/2, chap. III (C); and JIU/REP/2010/5, chap. II (F).

[41] See chap. III.B for details.

C. Term limitation for head of internal audit/oversight

71. A means of safeguarding both the independence and objectivity of the head of internal audit/oversight is to make the term of employment clear at the outset of the appointment and not subject to annual renewals. This is generally accomplished by imposing a predetermined tenure, often accompanied by exclusion from re-employment in the same organization in another position.

72. In support of this principle, it was recommended in JIU/REP/2006/2 that the appointment of heads of internal audit/oversight should be limited to a non-renewable term of five to seven years, with no expectation of re-employment within the same organization at the end of the term.[42] This would apply to all heads of internal audit/oversight, regardless of the assignment of other second or third line of defence activities, including investigation, evaluation and inspection.

73. The Inspectors consider term limitation as a way of limiting the risk of impaired audit reporting in order to achieve long-term employment, by removing, at the outset, any ambiguity regarding employment length and tenure. Term limitation is also a mechanism to enhance objectivity and independence and avoid conflict of interest by periodically replacing the head of internal audit/oversight in order to bring in a fresh and unbiased perspective.

74. To date, roughly half of the internal audit services in the United Nations system organizations do not have a term limitation for their head of internal audit/oversight. Figure 2 below provides further details on other aspects of the appointment of the head of internal audit/oversight.

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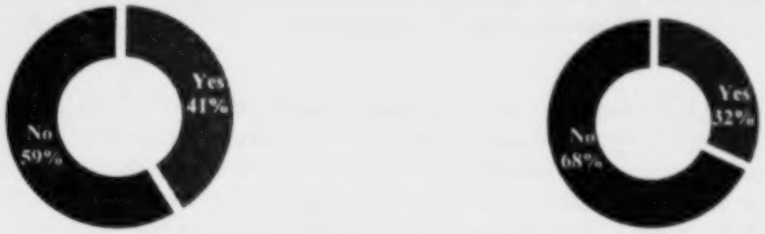
[42] See also JIU/REP/2014/6, recommendation 4, which recommends five to seven year terms and restrictions on re-employment for heads of evaluation services.

Figure 2: Term limitation for the position of head of internal audit/oversight

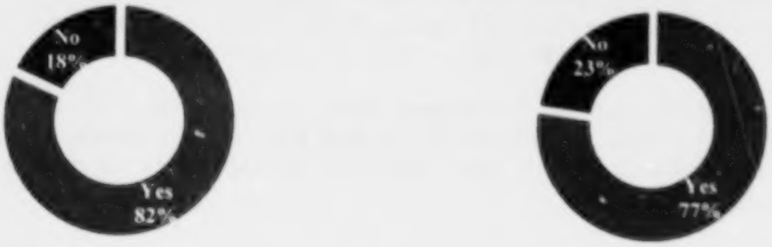


Re-employment in another position within the same organization is prohibited for a period of time

Probationary period exists before full appointment

Appointment is done in consultation with either the oversight committee or the governing body

Termination requires consultation with either the oversight committee or the governing body



Source: JIU 2015 questionnaire

75. Among those organizations that have a term limitation for the head of internal audit/oversight, it is usually for one or two terms, but there is a range of practices. For example, UNDP and UNICEF have a five-year term limitation renewable once, and UNDP believes that renewal of the term of the head of internal audit/oversight should be at the discretion of the executive head in consultation with the oversight committee. Information obtained from the interviews reflected that shorter terms (less than five years) may prove to be more costly in terms of money and time spent on staffing and changeover activities. The impact of turnover was often found to be more severe for smaller internal audit services, where there is no senior-level deputy to act as officer-in-charge during the transition.

76. There are, however, a number of measures that organizations can take to minimize the impact of and benefit from turnover. For example, the use of effective succession planning[43] and proactive staffing processes would minimize the length of vacancies. In addition, a well-planned knowledge transfer strategy would help to ensure that an experienced new head of internal audit/oversight is able to quickly learn about the new organization and thus add value and new insight to the position.

77. About one third of the organizations with internal audit services have also implemented restrictions on the ability of the head of internal audit/oversight to be re-employed within the organization upon the conclusion of their term of office. Some interviewees argued that this is more challenging terrain as the head of internal audit/oversight has good skills and experience to contribute to the organization. During the review period, there was at least one case where a head

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[43] See JIU/REP/2016/2 on succession planning in the United Nations system organizations.

of internal audit/oversight incumbent changed position mid-term. It must be kept in mind that restrictions are only placed on the head of internal audit/oversight, but all other internal audit staff are free to accept other positions within the organization in order to benefit from their expertise.

78. There are, however, some disadvantages to term limitations. For example, it may make promotion to the post of head of internal audit/oversight unattractive to well-qualified staff who are looking for long-term employment. There is also an increased risk of turnover before the expiration of the term as incumbents may seek another position early in order to ensure continuous employment. UNFPA and UNICEF, for example, argued that a non-renewable five-year term may lead the incumbent to look for a new position midway through the mandate.

79. The Inspectors continue to support the principle that objectivity is better safeguarded with term limitations, with no other employment option for heads of internal audit/oversight within the organization during or at the end of their term. While each organization must make its own arrangements based on its unique staffing situation, the Inspectors consider that the risk of impairment to objectivity in this critical post is too high for long-term appointment within the same organization. At the core of the issue is the trade-off between the associated costs of more frequent turnover and the increased audit independence afforded by shorter terms.

80. **This review affirms recommendation 10 in JIU/REP/2006/2, which, inter alia, recommends term limitation and employment restriction within the same organization for the head of internal audit/oversight, and requests the governing bodies that have not yet done so to establish a "non-renewable tenure of five to seven years", "with no expectation of any further employment within the same United Nations organization at the end of the term".**

IV. STRATEGY, PLANNING AND BUDGETING

81. As the internal audit function matures, its strategy, planning and budgeting processes should evolve with a view to providing a high level of assurance and a comprehensive opinion on the state of internal control, risk management and governance across an organization's operations. To achieve this, the annual risk-based internal audit plan should optimally be aligned with a long-term strategy that defines expectations for the internal audit function over time. The strategy will drive the level and complexity of auditing services included in the annual risk-based internal audit plan, taking the size of the internal audit service into consideration. Appropriate funding and resources should support the achievement of the workplans and overall strategy. In order to ensure adequate coverage and avoid duplication, internal audit workplans should be coordinated with the external auditors.

A. Internal audit strategy and planning

Internal audit strategy

82. The development and approval of a strategy is an important way to ensure that internal audit services address the requirements of their stakeholders by undertaking a needs assessment and gap analysis. A strategy provides a means to articulate the vision and mandate of internal audit within the vision and mandate of the organization and enables a balance between cost and value to be achieved.[44] A strategy also provides a basis for the annual planning process and the determination of financial requirements and long-term human resources needs. Having an internal audit strategy in place is a leading practice.

83. Half of the internal audit services reviewed reported having an approved internal audit strategy document.[45] However, based on a review of the strategies in place, it was noted that, in many cases, these documents lacked some of the fundamental requirements of an internal audit strategy, such as an assessment and statement of desired maturity and a human resources plan.

84. Not all organizations need a complex internal audit strategy. For example, in smaller organizations, it may suffice to have an internal audit service with a simple strategy to focus on compliance work. On the other hand, large and complex organizations that operate in high-risk environments will need more strategically focused internal audit functions that can provide assurance on emerging risk areas and control processes. A good practice observed in a few organizations in the United Nations system, including UNRWA and WFP, and also in the Organisation for Economic Cooperation and Development (OECD), was the use of the IIA Internal Audit Capability Model[46] as a means of gauging the desired level of maturity of the internal audit function. Determining the desired maturity level can guide the development of the internal audit strategy.

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[44] See IIA, "Developing the internal audit strategic plan", International Professional Practices Framework (IPPF) Practice Guide, July 2012, page 1.

[45] According to the responses to the JIU questionnaire, 11 out of 22 organizations with established internal audit services reported having a specific internal audit strategy document in place. Internal audit services without such a document were ITU, UNOPS, IAEA, UNIDO, UNHCR, UNAIDS, WHO, UN-Women, United Nations Secretariat, UNESCO and UNRWA.

[46] See The Institute of Internal Auditors Research Foundation (IIARF), "Internal audit capability model (IA-CM) for the public sector", 2009. The IA-CM is a framework for assessing the fundamentals needed for an internal audit function in Governments and the broader public sector. In particular, it illustrates the levels and stages through which an internal audit function can evolve as it defines, implements, measures, controls and improves internal audit processes/practices.

85. The development of an internal audit strategy provides an opportunity for the head of internal audit/oversight and the executive head, in consultation with the oversight committee, to determine the mandate, the nature of the services and the level of maturity needed for an organization's internal audit service. The maturity of the organization's first and second lines of defence must also be taken into account in an internal audit strategy, as these will impact the ability of internal audit to take on a more strategic role and to add value beyond the traditional role of compliance auditing. A strategy serves to set a strategic mandate for the internal audit service, provides a clear long-term direction for annual audit plans and determines resourcing requirements. Formalizing this in a strategy provides transparency and sets clear expectations for the type of audit services and level of performance expected of the internal audit function.

Recommendation 3

In consultation with the executive heads and the oversight committees, the heads of internal audit/oversight in United Nations system organizations should develop, if they have not yet done so, internal audit strategies in order to provide vision and direction as to how internal audit should be strategically positioned within their organizations and operationalized to achieve their mandates, no later than December 2018, with periodic updates thereafter.

Internal audit planning

86. According to the IIA Standards (2012), all heads of internal audit/oversight must prepare risk-based audit plans to set out the priorities of the internal audit service in a manner consistent with the goals of the organization.[47] Effective audit planning requires not only a focus on risk, but also on the changing business environment and stakeholders' needs.

87. All the internal audit services reviewed prepare risk-based audit plans. IIA Standards (2012) recommend an annual planning period, and 19 of the services reviewed (86 per cent) follow such a cycle.[48] The audit universe, that is, the list of all auditable entities, in 21 of the services (95 per cent) was reported to include all main business processes, operations, functions, programmes and organizational entities.

88. All the internal audit services indicated a good level of consultation in the development of their internal audit plans; in all the organizations, senior management, the oversight committee and the executive head were consulted, and in the majority of organizations, the external auditor was also consulted. A good practice noted in several internal audit services was the institution of a multi-year audit planning process and situation of the annual plan within the longer time horizon of a strategic plan.

Risk assessment methodology

89. IIA Standards (2012) recommend that, in the development of risk-based audit plans, the organization's risk management framework and risk appetite,[49] which are management's responsibility to prepare, should be taken into account.[50] If these do not exist, internal audit must undertake its own assessment of risk after seeking the input of senior management and other key stakeholders.

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[47] See IIA Standard 2010 - Planning.

[48] Compare also IIA, "Practice Advisory 2010-1: Linking the audit plan to risk and exposures", Practice Advisories under the International Professional Practice Framework (IPPF), January 2009.

[49] See footnote 17 for a definition of "risk appetite".

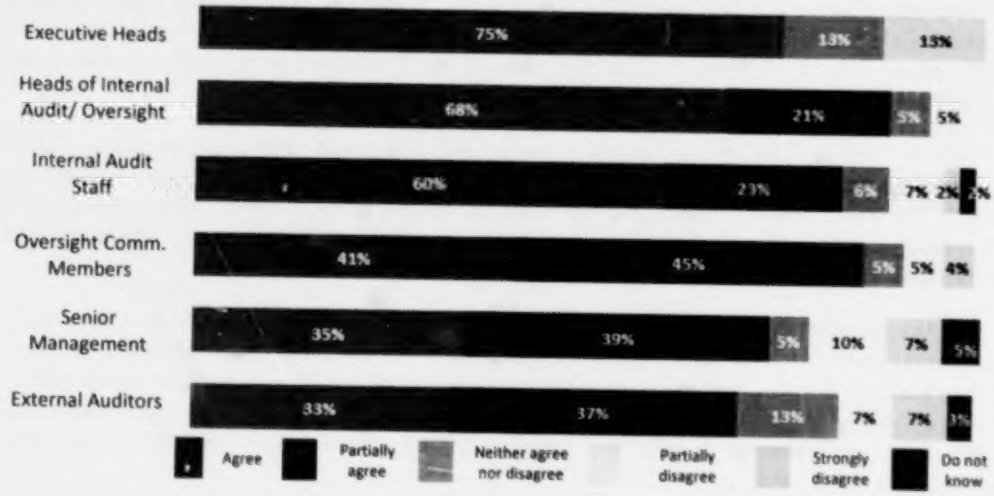
[50] See IIA Standard 2010 – Planning.

90. None of the internal audit services reviewed relied solely on the ERM framework of their organizations, which was not unexpected, as internal audit and management will necessarily have different approaches to the risks facing the organization. However, while most organizations had an ERM process in place (91 per cent), less than half of their internal audit services (41 per cent) considered ERM in the development of their internal audit plan. In fact, more than half of the internal audit services (59 per cent) relied solely on internal audit's risk methodology.[51] As revealed in the interviews with internal audit staff, this was generally because ERM frameworks are viewed as less than mature. An adequate level of maturity in the ERM framework is a necessary condition for internal audit to take it into account during their risk analysis.[52]

91. During interviews, senior managers often indicated that they did not understand how internal audit formulated its risk assessment; and in response to the JIU survey, only 35 per cent of senior managers agreed that the audit plan appropriately addressed the organization's highest risk areas (see figure 3 below). Better communication of the internal audit plan and its underlying risk assessment process would provide an opportunity for the internal audit function to contribute to a common understanding of organizational risk and how it is being addressed in the internal audit plan. The World Bank provides a good example of this in its annual internal audit report, which devotes a section to the risk assessment methodology and how it translates into the selection of audit engagements.[53]

Figure 3: Risk-based internal audit plan

Does the audit plan appropriately address the organization's highest risk areas?



Source: JIU surveys 2015

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[51] See IIA Standard 2010 – Planning. According to the interpretation of this standard 2010, the internal audit risk methodology should take into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If such a framework does not exist, the head of internal audit/oversight should use his or her judgment of the risks, after considering input from senior management and the governing body.

[52] Compare also JIU/REP/2016/4, paras. 94-98 on fraud risk assessments by audit offices.

[53] World Bank, *Internal audit vice presidency annual report 2013*, 13 December 2013, p. 22.

92. Internal audit can provide opportunities for organizational learning and understanding of risk assessment methodology and risk mitigation, which would reinforce the importance of ERM and support its mainstreaming in organizations. **Heads of internal audit/oversight are encouraged to communicate and discuss the risk methodology used in preparing internal audit plans so that stakeholders can better understand the rationale as to how risks are assessed and addressed. The heads of internal audit/oversight should support, while maintaining their independence, the management of the organizations in the development and promotion of ERM frameworks in order to ensure a common understanding of risks.**

B. Types of audit services and methodologies

93. The types of internal audits contained in the risk-based audit plan are driven by the needs and risk profile of the organization and by the level of maturity of its risk and control processes (i.e., the second line of defence). Different business models and the geographic spread of the audit universe are also important drivers for determining audit cycles and types of services that need to be delivered across the span of an organization's operations. The range of audit services generally include:

- *Compliance audits*, which provide assurance on the level of conformity to established policies and procedures;
- *Performance, operational or "value-for-money" audits,*[54] which provide a systematic review of a function or programme to determine its level of effectiveness, efficiency and economy of operation;
- *Information technology (IT) audits,* which provide a specialized review of information technology infrastructure, policies and operations;
- *Advisory services*, which are consulting engagements to provide advice to management to help improve an organization's processes, without the internal auditor assuming management responsibility of the area under review.[55]

94. Heads of internal audit/oversight indicated that assurance engagements often combine elements of compliance and performance and, as a result, individual audits often cannot be categorized in practice. Advisory services constitute a separate category as they provide a different service (see details below).

95. In general, and based on the responses to the JIU surveys, internal auditors and executive heads were satisfied with the types of services provided by the internal audit functions.

96. In the JIU surveys, stakeholders were asked to rank their preferences for the four different types of audit services. Compliance and performance audits were rated as the most important. These ratings are also generally in line with the current mix of services provided by internal audit functions in the United Nations system. In 2015, compliance and performance audits accounted for 42 and 41 per cent, respectively, of all audits completed.

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[54] For the purposes of this report, the term "performance audits" will be used.

[55] Compare also the definition in JIU/REP/2006/2, annex I.

Assurance services

97. Assurance services, comprising compliance, performance and IT audits, are the traditional domain of internal audit. In the JIU surveys and interviews with stakeholders, it was noted that compliance audits are most in demand among executive heads. However, while stakeholders appreciate this assurance, numerous compliance audits of field entities may often produce repeat findings and recommendations. This is an area of frustration to both management and the internal audit service, both of which feel that the root cause of deficiencies is not being addressed.

98. In response to this concern, one highly useful and innovative way of helping organizations make sense of a large number of compliance audits of country operations is to conduct thematic or cross-cutting audits. These audits provide comprehensive reporting emanating from the application of a common audit programme that examines a range of functional areas and is applied to diverse field operations. In this way, themes and common results on a range of topical areas can be extrapolated across country operations. Such good practices were noted in, inter alia, the United Nations Secretariat, FAO, UNFPA and WHO, which have developed standardized audit programmes that are replicated across multiple country office operations. The findings of individual audits are then aggregated on an annual basis in a comprehensive report that addresses cross-cutting systemic issues and makes recommendations for improvement. In this way, management has the opportunity to address deficiencies on an organization-wide basis and lessons are more easily shared across offices.

99. Audit clients interviewed in most of the organizations placed a very high value on such lessons learned that offer an opportunity to examine the root causes of issues, and recurring issues. For example, FAO conducted a thematic review of "gender" aspects in various audit reports, which enabled the identification of general challenges. WFP has built a stronger emphasis on thematic audits into its internal audit strategy. At UNDP, the practice is taken a step further with the preparation by management, with input from internal audit, of a set of top priorities requiring senior management attention and follow-up emanating from internal and external audit recommendations. This list is updated annually and is also shared with the UNDP Executive Board as part of the management response to audit matters. Senior management officials place a high value on such thematic reporting as it provides an overall view of lessons learned from individual audit reports. It was also noted that thematic reporting, which is more generalized, might present a better means of finding organization-wide solutions than targeting specific countries or operations.

Recommendation 4

Heads of internal audit/oversight in United Nations system organizations who have not yet done so should consolidate in their annual/periodic or other report findings of recurring issues emanating from individual internal audit reports that cut across various offices, units or departments so as to enable the executive heads to systematically address them.

100. Performance audits can identify redundancies and unnecessary controls and processes and thereby increase efficiency and value for money. However, senior managers interviewed indicated that audit recommendations sometimes require significant additional resources to implement. Implementing recommendations to increase controls and staffing levels is a challenge in the current financial situation. Where auditors have an obligation to make recommendations on value-for-money issues that may require additional resources, management has to decide on the level of resources allocated for that recommendation.

101. IT audits are important because they assess enterprise resource planning (ERP) systems, the protection and integrity of data, key processes, operational controls and information management. Highly technical, and often carried out by external consultants, IT audits represented, on average, only 7 per cent of the internal audits planned in 2015.

102. Given the general trend, a strong second line of defence in IT is also likely lacking across the system. External auditors may not devote large amounts of their audit plans looking at IT controls beyond those relating to financial reporting. Given the importance of IT in the control systems of the United Nations system organizations, the current level of IT auditing by internal audit should, in the opinion of the Inspectors, be higher than it currently is.

Advisory services

103. Consulting or advisory services are an intrinsic part of the services offered by internal audit functions.[56] They provide a means to use the expertise of internal audit in a consultative capacity to assist organizations to improve systems, practices or processes. They are not intended to provide assurance and the recommendations are of an advisory nature. Advisory engagements are intended primarily as a service to management and are often used in areas of emerging risk or early systems implementation. Assurance and advisory engagements pose a trade-off in the use of finite audit resources in the internal audit workplan, with assurance audits being driven mainly by the explicit or implicit risk appetite of the governing body, and advisory services being driven, to a larger extent, by management requests.

104. Within the context of the United Nations system organizations, the Inspectors noted a growing demand for advisory services on the part of management. For example, at WIPO, the internal audit service is increasingly consulted to advise on business change processes. In 2015, the average percentage of the internal audit plan devoted to advisory services across the United Nations system was around 6 per cent, which is roughly in line with the proportions found in national government entities and the public sector in general.[57] However, only half of the internal audit services reviewed conduct advisory services. To increase the provision of advisory services, WFP relies on a senior staff member in combination with specialized expertise obtained through outsourcing arrangements. While such an approach might work in particularly large internal audit services, it may be difficult to replicate in smaller ones.

105. Based on the responses to the JIU questionnaire, internal audit services in the United Nations system carry out mainly assurance audit work. For the time being, this is likely to be the best approach. However, as second lines of defence mature in the United Nations system organizations, there may be greater opportunity for internal audit to devote resources to add value in more strategic areas, for example, by increasing the number of advisory services as well as performance and IT audits. In order to make this transition, it will be important to understand the differences in perception of the various stakeholder groups.

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[56] See IIA, definition of internal auditing.

[57] In 2015, 16 internal audit services under the United Nations Representatives of Internal Audit Services (UN-RIAS) participated in the IIA Global Audit Information Networking (GAIN) benchmarking. The benchmarking found that those agencies on average devoted 6 per cent of their audit plans to "consulting engagements", compared to 7 per cent in national governments and 8 per cent in the public sector. This is significantly lower than the share of advisory services provided, for example, by the national internal audit functions in the Governments of the United Kingdom of Great Britain and Northern Ireland (approximately 50 per cent annually) and Canada (approximately 20 per cent), as well as in the World Bank (approximately 30 per cent). It is also notable that only half of the internal audit services in the United Nations system reported any advisory services; on the other hand, the proportion has been increasing steadily over the last three years (2013-2015).

106. When moving towards a greater role in advisory services as a strategic partner of senior management, the internal audit function needs to carefully manage any potential or actual conflicts of interest that may arise and, in particular, ensure a separation of duties between advisory and audit engagements; the latter may be more challenging for smaller internal audit services.

Leveraging technology in audit work

107. The use of IT-based audit methodologies enables internal audit to harness the power of data analytics and remote auditing techniques. Data analytics offers an opportunity for internal audit to leverage new technologies and to automate routine compliance testing, in particular as ERP systems in United Nations system organizations mature. Its power can be exponential and deemed highly cost-effective compared to traditional approaches. Data analytics allows routine audits to be completed relatively easily and can include entire populations of data, rather than small samples of transactions which are processed manually.

108. Only eight internal audit services reported the regular use of data analytics to draw audit conclusions. Good practices include WHO, with the development of audit routines to extract data to be used in its regular compliance audits of country operations, and UNESCO, with the development of computerized routines to identify data irregularities in its audit work. Challenges for implementing data analytics are the requirement of significant investment in software and programming and the need for auditors with the expertise and capacity to use advanced information practices in their audits. **Resource-saving opportunities exist for sharing automated audit programmes, particularly those for testing standardized controls in compliance audits, across United Nations system organizations. Sharing programmes and expertise across internal audit services would not only save time in implementing advanced data analytic practices, it would also contribute to system-wide quality improvement.**

109. Remote auditing techniques are typically used to conduct audits from headquarters of low-risk operations, small offices or in situations where security, cost, transportation or accessibility issues prohibit the ability of internal audit staff to carry out on-site fieldwork. For example, since the onset of conflict, UNRWA has relied on remote auditing to cover its activities in the Syrian Arab Republic. Aside from its necessary use, owing to security issues, remote auditing works best for compliance audits in highly computerized operations. While not seen as a replacement for on-site auditing, remote auditing can also be used as a tool to extend audit coverage to a broader range of operations. In their responses to the JIU questionnaire, 12 internal audit services reported that they had temporarily relied on remote auditing techniques for part of their audit plan.

110. In the JIU surveys, stakeholders, including senior managers and oversight committee members, were less positive about the degree of leading technological practices and innovative approaches employed in internal auditing. IT-based audit techniques are an area in which the level of innovation can be improved. While stakeholders across the system may view IT-audit technology as less important, it is critical to ensure the security of United Nations data and information and the accurate processing of financial transactions.

Recommendation 5

Executive heads of United Nations system organizations should ensure that their internal audit services have adequate financial and human resources to expand the use of information technology (IT) auditing techniques, and to employ, as appropriate, advanced data analytics and remote auditing, with a view to leveraging technology to provide more economical and comprehensive audit coverage.

Stakeholder perceptions of importance of types of internal audits

111. Perceptions of importance of the different types of audit services across stakeholder groups varied relatively little. Overall, there seemed to be a high level of alignment between the preferences for the types of audit assignments among stakeholders of internal audit and the actual proportion of different assignments carried out.

112. To protect their independence, heads of internal audit/oversight services must have the ability to select their own assignments, including a mix between assurance, advisory and other services. A challenge for internal audit in this regard seems to be that senior management and governing bodies have different views on what the most useful assignments are, with executive heads more interested in compliance audits, and governing bodies more concerned with performance audits. Given the finite resources, it may not be possible for internal audit to fully satisfy both these expectations and strike the right balance between the competing priorities of different stakeholders. This will be an ongoing challenge for internal audit services.

113. As internal audit matures and, as a profession, it moves away from the role of "police" to that of a trusted advisor, the types of audit services offered will also evolve. This evolution of service and degree to which stakeholders are satisfied with internal audit goes beyond the annual risk-based workplan and requires a long-term strategy for internal audit.

C. Adequacy of resources

114. Internal audit services require an adequate budget to provide sufficient resources to address the highest risk areas of the internal audit plan and to hire and retain professional internal audit staff and consultants. A sufficient budget is also a key contributor to internal audit independence. According to the IIA Standards (2012), it is a requirement for heads of internal audit/oversight to ensure that there are appropriate, sufficient and effectively deployed resources to achieve the approved internal audit plan.[58]

115. Across the United Nations system, there is evidence of some investment in internal auditing, in terms of the budget and human resources dedicated to it. Based on the responses to the JIU questionnaire, internal audit budgets accounted for 0.25 per cent of the total budget (weighted average) of the 22 United Nations system organizations reviewed. Internal audit staff accounted for 0.51 per cent of total staff (weighted average) in the same organizations (see annex V for details).

116. The majority of United Nations system internal audit services are funded through regular budgets. However, there are some variations. For example, OIOS is funded primarily by assessed contributions (regular budget and peacekeeping budget) and UNOPS is a self-financing organization. Others, such as UNDP, UNRWA, ILO and UNESCO, rely to varying degrees on extrabudgetary funding.

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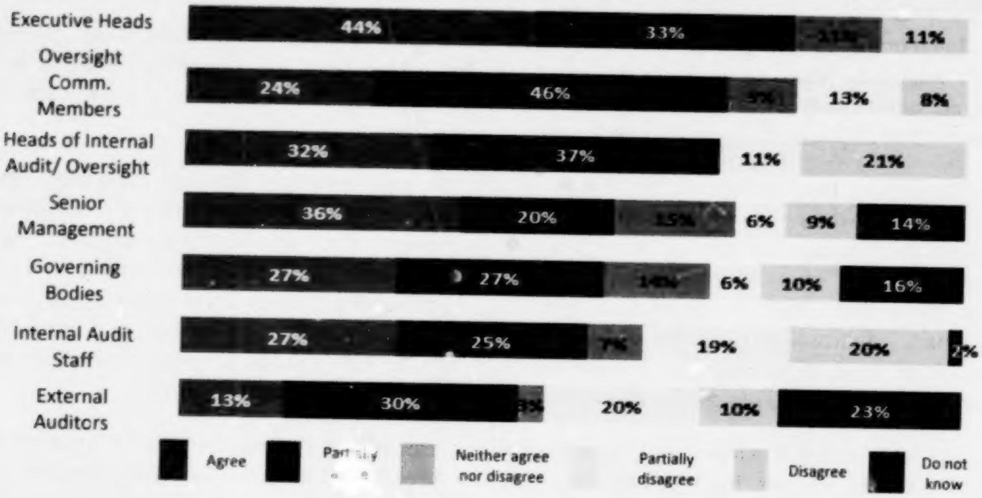
[58] IIA Standard 2030 - Resource Management.

117. In the JIU surveys, stakeholders were asked if they thought that internal audit was appropriately resourced in terms of staff and funding to carry out its work; all groups indicated reservations to this question. Most notably, only about one quarter of the responses from oversight committee members and governing bodies were satisfied with the amount of resources provided to internal audit. Just over one third of senior managers responded that resources were appropriate. Less than half of the executive heads responsible for approving internal audit budgets were satisfied that the level of resources was appropriate (see figure 4 below for details).

Figure 4: Perception of sufficiency of internal audit resources

Proportion of stakeholders that agree that internal audit is appropriately resourced (human and financial)



Source: JIU 2015 surveys

118. Ideally, resource allocation decisions for internal audit should be driven by the requirements of the risk-based audit plan, in particular the need to cover high-risk areas as well as to establish auditing cycles for key units (field offices, departments, etc.) in the audit universe. For example, many internal audit services have established audit cycles that cover each field office at least every five to seven years. It is important that internal audit functions be fully transparent about the trade-off between resources and audit cycle coverage, so that appropriate resourcing decisions can be made based on the risk appetite of the organization.

119. The problem created by an underfunded internal audit function is that it may not be possible to cover important risk areas, and resources, not risk, may become the key driver of the internal audit workplan. The current constrained funding environment in the United Nations system is a key contributor to this situation. In a zero-growth financial situation, any additional money for internal audit must be taken from another budget. However, it is important to consider the impact of changes in extrabudgetary funding, which can be delinked from the regular funding internal audit normally relies on. As new project funding sources are obtained, portions should be earmarked, as appropriate, for internal auditing services.

120. Inadequate resources will limit the ability of internal audit to cover all key risks in its risk-based plan and may impact its ability to be fully independent. While the internal audit function identifies risk areas as a result of its audit planning process, it is the responsibility of executive heads to ensure sufficient funding for auditing high-risk areas. As much as possible, internal audit functions should be protected from severe funding cuts and prioritized for increases as resources permit. The advice of the oversight committee would be extremely helpful in deciding an optimal level of funding for internal audit that would balance efficiency with sufficient coverage of key risk areas.

Recommendation 6

Executive heads of United Nations system organizations, on the advice of their oversight committees, should allocate adequate financial and human resources to the internal audit services to ensure sufficient coverage of high-risk areas and adherence to established auditing cycles, as identified by the heads of internal audit/oversight during risk-based audit planning.

D. Coordination with external auditors

121. In the United Nations system, the main role of external auditors is to audit the financial statements of the organizations. They also perform compliance and performance audits, in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) standards and other international standards on auditing, as well as the financial regulations and rules of the respective organizations.

122. IIA Standards (2012) require internal audit to share information and to coordinate activities with external auditors to ensure proper coverage and to minimize duplication of efforts. [59] External auditors are guided by their own standards that require them to evaluate the work of internal audit to determine the extent to which they can rely on internal audit work in order to modify the nature or timing or to reduce the extent of audit procedures they would otherwise perform themselves.[60]

123. While the intent to coordinate exists, external auditors do not view internal audit as completely independent of management and, as a result, need to be satisfied of the objectivity, competence and professional approach of the function before being able to rely on internal audit work. As a result, external auditors frequently set their plans independently of internal audit. Some heads of internal audit/oversight indicated in interviews that coordination often occurred as a result of internal audit adapting its plans so as not to duplicate the work of the external auditor, as some external auditors were firm once their plans were set.

124. Despite these challenges, according to the JIU surveys, executive heads, heads of internal audit/oversight and external auditors generally indicated that the overall level of coordination between internal and external auditors was felt to be satisfactory. A further indicator of good coordination is the high percentage of internal and external auditors who rely on each other's work (see figure 5 below).

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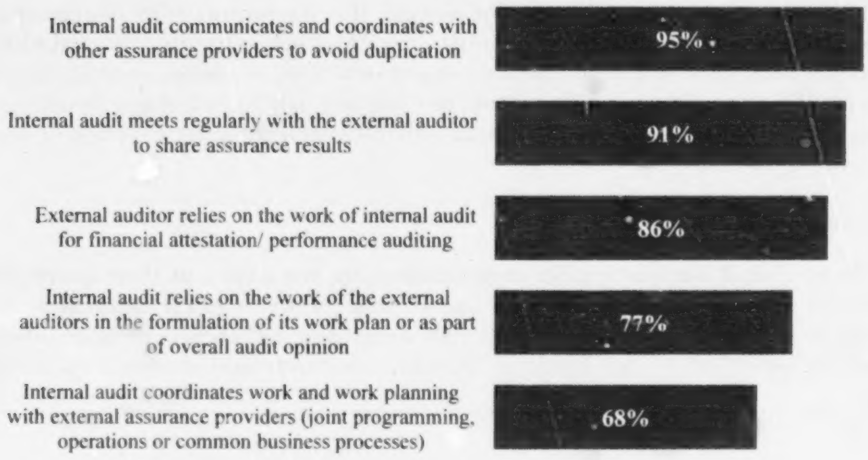
[59] See IIA Standard 2050 – Coordination.

[60] See International Auditing and Assurance Standards Board, "International Standard on Auditing (ISA) 610 – Using the work of internal auditors", 2013, p. 6.

Figure 5: Coordination practices between internal and external audit



Source: JIU 2015 surveys

125. In JIU/REP/2006/2, JIU recommended the establishment of an effective mechanism for coordination and cooperation between internal and external audit on a system-wide basis.[61] Although individual challenges remain, according to the responses to the JIU questionnaire, the results on coordination and cooperation between internal and external audit were positive overall. Those interviewed for the review attributed most of this progress to initiatives and relationship-building between heads of internal audit/oversight and external auditors.

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[61] See JIU/REP/2006/2, recommendation 17.

V. QUALITY, PROFESSIONALISM AND VALUE

126. Internal audit is a well-established professional function in the United Nations system. According to the responses to the JIU questionnaire, all 22 United Nations internal audit services reviewed have adopted the IIA International Professional Practices Framework and *International Standards for the Professional Practice of Internal Auditing* (*Standards*) and the majority also operate in compliance with IIA Standards as measured by the passing of an external quality assurance assessment (see below).

127. IIA considers that the value proposition of internal auditing is based on three core elements delivered by the internal audit function to an organization, namely, assurance, objectivity and insight.[62]

128. In order to assess quality, professionalism and value along these dimensions, JIU considered three areas: (i) the quality assessment and improvement processes in place to ensure quality and adherence to professional standards; (ii) the processes that support objectivity through professional and competent staffing; and (iii) stakeholders' views on the insight, credibility and value provided by United Nations internal audit services.

A. Quality assurance and improvement programmes

129. A quality assurance and improvement programme is a required element of a professional internal audit practice. Quality assurance and improvement programmes are comprised of two parts: a formal external quality review, conducted by an independent examiner; and an internal self-assessment for ongoing monitoring and performance improvement. Together, these components enable both ongoing evaluation and formal testing of the internal audit conformity with the IIA Standards, as well as assessment of the efficiency and effectiveness of the function.

External quality assessments

130. The IIA Standards (2012) require that an external quality assessment be conducted by a qualified independent professional (or team of professionals) at least once every five years.[63] Such an assessment would provide an opinion as to the conformity of assurance and consulting work to the Standards and as such offer stakeholders important accountability information on the level of professionalism of an internal audit service. External quality assessments are also valuable as a means of benchmarking a service and sharing good practices.[64] Both JIU/REP/2006/2 and JIU/REP/2010/5 contain recommendations in this regard.[65]

131. According to the responses to the JIU questionnaire, overall external quality assessment results are generally good across participating organizations, but there is room for improvement.

132. Formal adoption of professional standards is required by IIA and must be established in the internal audit charter of the organization, so that in approving the charter, the executive head and the governing body confirm their commitment to the professional internal audit function.[66]

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[62] See IIA, "Supplemental guidance: Value proposition of internal auditing and the internal audit capability model", March 2012, p. 4.

[63] See IIA Standard 1312 - External Assessments.

[64] See IIA, "Practice Advisory 1312-1: External assessments", Practice Advisories under IPPF, January 2009, para. 2.

[65] See JIU/REP/2006/2, recommendation 13; and JIU/REP/2010/5, recommendation 10.

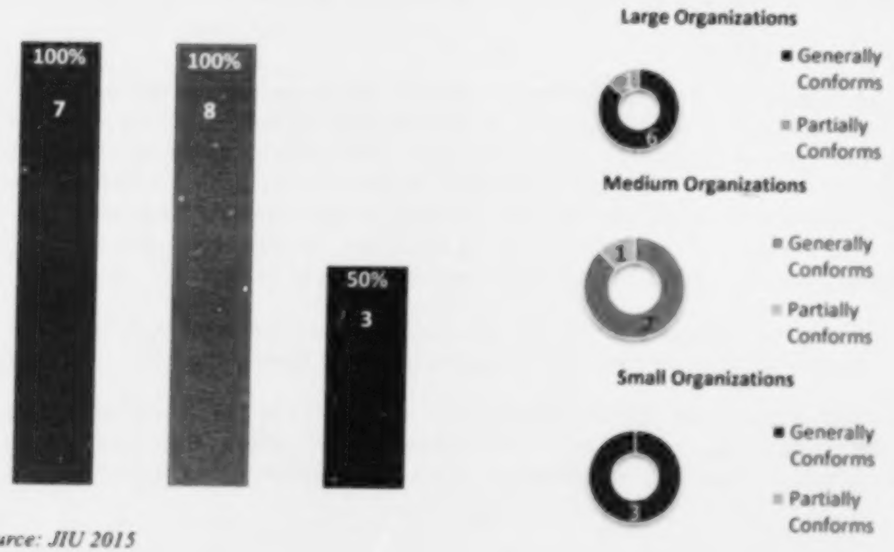
[66] See IIA Standard 1000 - Purpose, Authority and Responsibility.

133. To date, 18 of the 22 internal audit services (82 per cent) have completed at least one external quality assessment, and the majority have received a passing grade. The services that did not pass have established action plans to correct the deficiencies. **In the view of the Inspectors, passing an external quality assessment, for which adoption of the IIA Standards is a prerequisite, is important evidence of performance and should be achieved by all internal audit services in the United Nations system.**

134. Relatively few external validations are carried out on the performance of the internal audit function in small organizations. Based on the responses to the questionnaire, only three of the six internal audit services in small organizations have completed external quality assessments. Services that have not yet completed an external quality assessment are encouraged to consult with and learn from the experiences of the services that have already done so. Organizations with smaller budgets may wish to consider lower-cost strategies available from IIA, such as a self-assessment with independent validation, which limits the amount of external resources required to conduct the assessment.[67]

135. Whereas organizational size[68] seems to be the explanatory variable for whether or not an organization undertakes an external assessment, it does not seem to affect performance, given that one medium-size organization and one large organization did not pass the assessments. While it seems to be more challenging for some internal audit services with particular characteristics, including possibly a large field presence and a large number of staff in the field, it is not impossible and in fact it should be a goal for all internal audit services to pass an external quality assessment (see figure 6 for details).

Figure 6: Incidence and results of external quality assessments



Source: JIU 2015

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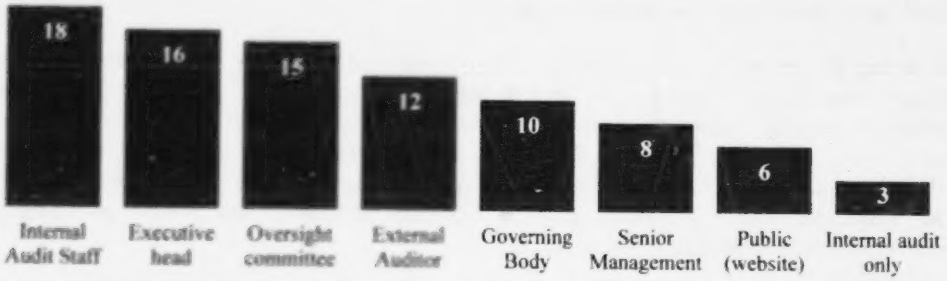
[67] See IIARF, *Quality Assessment Manual for the Internal Audit Activity*, 2013, chap. 3 on self-assessment with independent validation.

[68] Annex V provides details on budget and staff of internal audit services in United Nations system organizations reviewed.

136. According to IIA Standards (2012), the results of external assessments must be shared with the executive head and the governing body.[69] While the sharing of results with executive heads was very common (89 per cent), it was less so with governing bodies (56 per cent) (see figure 7).

Figure 7: Sharing of results of external quality assessments with stakeholders

(18 internal audit services completed external quality assessments)



Source: JIU 2015 questionnaire

137. As discussed in chapter III of the present report, governing bodies are the beneficiaries of internal audit services and play an important role in their oversight. Therefore, internal audit performance information, in particular the results of external quality assessments must be shared with the governing bodies.

138. Furthermore, sharing these results even more broadly can be an important source of assurance to United Nations system member States and donors that a functional internal audit service is in place and operating in accordance with professional standards. In this regard, it may be practical for internal audit services that have passed an external quality assessment to publicize their professionalism and compliance, either through website reporting or in their annual report. They would also be encouraged, as appropriate, to state in their reports that the internal audits were conducted in compliance with professional standards.[70]

Recommendation 7

Executive heads of United Nations system organizations that have not yet done so should ensure that their heads of internal audit/oversight continue to conduct external quality assessments of their internal audit services, in line with the Institute of Internal Auditors (IIA) Standards, at least every five years, or more frequently if a "generally conforms" grade has not been achieved, and should share the results with the governing bodies and, as appropriate, by public reporting. Those internal audit services that have not yet reached a conformity rating should ensure that it is achieved by December 2018.

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[69] See IIA Standard 1320 - Reporting on the Quality Assurance and Improvement Program

[70] See IIA Standard 1321 - Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"; and Standard 2430 - Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*".

Internal quality assurance and performance management

139. Ongoing monitoring mechanisms help heads of internal audit/oversight, executive management, oversight committees and governing bodies to assess the performance of internal audit on a regular basis. To this end, the IIA Standards (2012) require the establishment of an ongoing internal quality management, monitoring and improvement programme.[71] Such a programme comprises a number of elements, including periodic internal assessment reviews, client surveys and interviews to gauge satisfaction, ongoing quality reviews of audit engagements and regular monitoring of key performance metrics.

140. As noted above, while the majority of the internal audit services in the United Nations system have completed a formal external quality assessment, only six (27 per cent) reported that they undertook regular formal internal quality assessments. Such periodic assessments are specifically required by IIA Standards (2012) and are generally undertaken before or between external quality assessments to ensure that the internal audit service is, or remains, in compliance with the Standards. The assessments provide a means to correct the course and address deficiencies that could impact an external rating.

141. Another important means of assessing performance is to seek the views of the internal audit stakeholders. In response to the JIU questionnaire, only 39 per cent of internal audit services reported that they used client satisfaction surveys as an indicator of internal audit performance and only 17 per cent of these services used in-person interviews to gauge client satisfaction.

142. All of the internal audit services reported that they had established key performance indicators for internal audit. The Inspectors noted a wide variety in the number and types of indicators used (see table 1 below).

Table 1: Key performance indicators
(22 internal audit services)

Key performance indicators	Used by internal audit services	Used by internal audit services (percentage)
Timeliness of audit reports	14	64
Reports issued against the audit plan	14	64
Recommendation implementation rate	13	59
Client satisfaction surveys	9	41
Recommendation acceptance rate	8	36
Budgeted time/cost per audit report	6	27
Recruitment speed and vacancy rate	5	23
Staff training and development	5	23
Continuous improvement or quality reports	3	14
Plan acceptance and adequate coverage	3	14
Publicity and awareness of IA function	3	14

Source: JIU 2015 questionnaire and analysis of annual reports

143. While some internal audit services reported using a balanced range of key performance indicators to enable them to effectively manage their performance, in general, the indicators used by internal audit services appear limited and do not represent a holistic view of the function. The Inspectors noted that 8 out of the 22 internal audit services did not report having performance indicators for timeliness of audit reports and completion of the agreed audit plan, although these

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[71] See IIA Standard 1300 - Quality Assurance and Improvement Program; and Standard 1310 - Requirements of the Quality Assurance and Improvement Program.

are basic internal audit deliverables. Less than one quarter of the internal audit services had indicators relating to staff training and development or to determine views as to the quality of audit reports. Finally, only nine (41 per cent) services reported the results of their internal quality assessment and improvement programme to their executive heads and oversight committees.

144. Several good practices relating to key performance indicators were noted, including in particular instances where the internal audit strategy and organizational goals were linked/monitored using performance metrics. For example, one organization, which was trying to increase the number of performance audits conducted, established a target whereby 30 per cent of its audit plan is devoted to performance auditing. Another organization, which was conscious of budget restrictions, introduced the indicator whereby 30 per cent of its internal audit recommendations should provide cost-saving measures.

145. A related good practice is the use of the IIA Internal Audit Capability Model[72] as a recognized and accepted tool for assessing performance. To date, six of the United Nations system internal audit services (27 per cent) have used the model as a means of assessing overall performance.

146. The internal quality assessment process is important for a number of reasons. First, it strengthens the ability of the internal audit service to manage its own performance and to improve effectiveness; second, it increases the credibility of internal audit services which should be seen as champions of results-based management. If an internal audit service does not have effective assessment measures in place, it may lack credibility in guiding and assessing its clients in areas of performance; and finally, a key element of an internal audit quality improvement programme is the opportunity it presents to gain the views of stakeholders, including management, the executive head and the oversight committee, to gauge perceptions and how the added value of the function can be improved.

147. **Heads of internal audit/oversight in United Nations system organizations that have not yet done so should establish internal quality assessment programmes as a tool to ensure the continuous improvement of internal audit and the attainment of external quality certification. Such programmes should include periodic internal assessments, client surveys and key performance indicators, the results of which should be periodically reported to the executive heads and oversight committees for review.**

B. Objective and competent human resources

148. Internal audit staff in the United Nations system organizations must be able to uphold impartiality, avoid conflicts of interest and possess the requisite level of professional knowledge to fulfil their mandate. An appropriate mix of gender is required to bring balance and a diversity of perspectives.

Objectivity

149. Internal auditors must be objective in the performance of their work.[73] This requires an unbiased mental attitude, the ability to perform engagements without quality compromises and the need to avoid any real or perceived conflict of interest. Measures to enhance objectivity

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[72] See IIARF, "Internal audit capability model (IA-CM) for the public sector", 2009 (see also footnote 46).

[73] See IIA Standard 1100 - Independence and Objectivity. Objectivity is defined as "an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made".

include professional training, ensuring that internal auditors do not audit areas in which they had previous operational duties, and participation in organization-wide financial disclosure programmes, requiring review and annual sign-offs of compliance with the IIA Code of Ethics.[74]

150. Eighteen of the 22 internal audit services reviewed have an internal conflict of interest policy that restricts the ability of internal auditors to work in areas in which they have had recent operational responsibilities. Such a policy is important, for example, when staff who have previously worked in operations or management are seconded to internal audit services, and to prevent potential fraud.[75] However, according to the responses to the JIU questionnaire, only 10 out of the 22 internal audit services have implemented the practice of requiring staff to formally sign off against the IIA and/or the organizational code of conduct on an annual basis.[76] This could be incorporated into an existing process, such as the annual performance appraisal or annual financial declaration. An annual sign-off would indicate staff's responsibility and adherence to the organizational and the IIA code of ethics and constitute their declaration that they do not have any real or perceived conflicts of interest. **Having an internal audit conflict of interest policy reinforced by an annual sign-off on the IIA code of ethics is a good practice that should be replicated across the United Nations system internal audit services.**

151. Finally, according to the JIU surveys, there is consensus among internal audit staff and senior management as to the professionalism, competence and objectivity of internal audit staff.

Gender balance in internal audit staffing

152. Achieving gender balance in staffing is a goal of all United Nations system organizations.[77] The Inspectors noted that only 3 out of 18 (17 per cent) heads of internal audit/oversight were women.[78] In contrast, 40 per cent, on average, of the staff of the internal audit services were women.

153. The underrepresentation of women in leadership positions is a matter of concern as it could introduce a gender bias in internal audit work. Part of the challenge is that the low representation of women at higher levels reflects the trends in the staff population in general. Another challenge is that staffing is balanced by gender across organizations and not across positions in the United Nations system.

154. Redressing the gender imbalance requires close monitoring and reporting in relation to key internal audit performance indicators that go beyond the standard monitoring of gender balance at the organizational level. Additional measures could include targeted qualification activities for high-potential female staff, as well as a careful review of the required qualifications and the selection process of new staff, with a view to eliminating any potential gender bias.

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[74] IIA, "Code of Ethics", January 2009. The Code states the principles and expectations governing the behaviour of individuals and organizations in the conduct of internal auditing.

[75] Compare also JIU/REP/2016/4 on fraud prevention, detection and response in the United Nations system organizations, chap. VII, section H and others.

[76] Organizations that require staff to sign off annually on conflict of interest and code of conduct/ethics are UPU, UNESCO, United Nations Secretariat, WHO, UNAIDS, IAEA, UNICEF, WFP, UNIDO and UNFPA. An annual sign-off is a written acknowledgment that encourages staff to abide by the code of conduct and conflict of interest policy that is aimed at protecting the organization from unfair leverage and that promotes ethical conduct.

[77] See Charter of the United Nations, Art. 8.

[78] Of the 22 United Nations system internal audit services reviewed, there are 18 heads of internal audit/oversight owing to the outsourcing practices at UNAIDS, UN-Women and UPU and the special case of UNHCR. See annex I for details.

155. **In view of the current gender imbalance, executive heads of United Nations system organizations should give due consideration to gender balance in the appointment of heads of internal audit/oversight and likewise, heads of internal audit/oversight should be mindful of the need to ensure an appropriate gender balance and career support at all levels in internal audit services.**

Competence

156. IIA Standards (2012) require that internal auditors and internal audit services possess individually and collectively the knowledge, skills and competencies to perform their individual and collective responsibilities.[79] This proficiency is generally demonstrated by having staff with appropriate experience and professional certifications. In order to ensure the alignment of internal audit services with the core business of organizations, there is a need to continuously ensure staff competence in the selection of new staff and the training of existing staff.

157. In JIU/REP/2010/5, it was recommended that staff be selected independently from management and administrative influence, so as to ensure fairness and transparency, increased effectiveness and independence of the internal audit function (recommendation 4). While the majority of organizations have reported implementation of this recommendation,[80] in some organizations, only the executive head makes final staffing decisions, generally from a shortiist of candidates. This is not optimal and can impair the ability of heads of internal audit/oversight to obtain the best qualified staff with the necessary professional certification and experience.

158. In the 2010 JIU report, it was also recommended that heads of internal audit/oversight ensure that newly recruited staff possess audit or other relevant experience, as well as professional certification in audit or accounting at both entry and promotion levels, in line with good practices. Evidence gathered for the present review showed that there was room for improvement. Professional certification should evolve with changing requirements and technological progress, and that needs to be recognized.

159. An important indication of knowledge and commitment to the profession is for the head of internal audit/oversight to possess one or more of the professional internal audit certifications.[81] However, this is a requirement for only 42 per cent of heads of internal audit/oversight in the United Nations system. Other certifications such as Chartered Accountant, Certified Practicing Accountant, Expert-Comptable and Certified Fraud Examiners are also relevant. Concerning internal audit staff in general, the Inspectors are of the view that the majority of the professional internal audit staff in the United Nations system must have a professional internal audit or accounting qualification; this should be complemented by staff with a solid understanding of the core business and operation of the organization. Based on the responses to the JIU questionnaire, in 16 of the 22 internal audit services reviewed, at least 50 per cent of staff had professional certification in internal audit (see figure 8).

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[79] See IIA Standard 1200 - Proficiency and Due Professional Care.

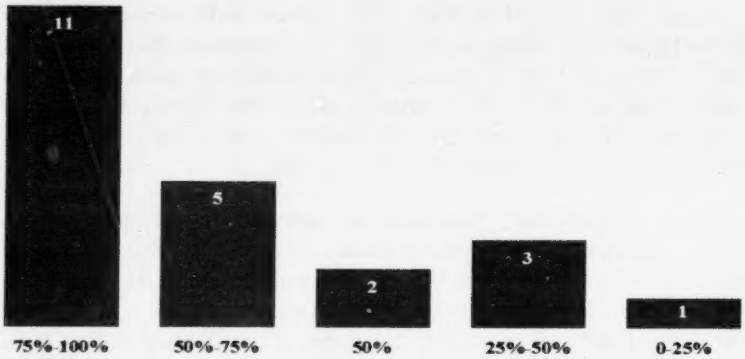
[80] According to the responses in the JIU web-based tracking system, the implementation rate of this recommendation stands at 94 per cent.

[81] The primary IIA professional certification is the Certified Internal Auditor (CIA) designation. IIA also offers other specialty designations for risk management, public sector auditing and information technology auditing.

160. Reasons for the relatively low level of professional certification could include, inter alia, insufficient training budgets, past and current selection criteria for recruitment, as well as factors external to the organizations, such as labour market trends for internal audit professionals.

Figure 8: Qualifications of internal audit staff

What percentage of current professional staff have an internal audit certification?[82]
(Absolute number of internal audit services, out of the total of 22)



Source: JIU 2015 questionnaire

161. Where gaps exist between required and actual human resources levels, staff can be supplemented by consultants to ensure that the audit teams have the appropriate level of professional expertise. In their responses to the JIU questionnaire, 75 per cent of internal audit services indicated the need for consultants to complete their internal audit plans. Consultancy services generally make up less than one quarter of the total human resources in the internal audit services. This demonstrates and reinforces the key role played by in-house professional expertise for the majority of internal audits.

Strategic staffing plans

162. In order to guide staffing and training activities, heads of internal audit/oversight must determine what knowledge, skills and professional competencies are needed to achieve the mandate of the service. This process should include a gap analysis, which would highlight any significant areas of expertise that may be lacking in the pool of internal audit staff, and a talent management strategy to rectify the situation. Based on responses to the JIU questionnaire, only four internal audit services (18 per cent) have such a strategic staffing plan in place.

163. Based on the responses to the JIU questionnaire, about three quarters, on average, of the internal audit staff are general internal auditors and this was also corroborated through interviews. Some of the larger organizations (for example, WHO, UNDP and WFP) reported having fraud examiners on staff in their internal audit services[83] and in many organizations, investigation activities are combined with internal audit under the oversight umbrella, which provides access to relevant capacity. IT auditors represent only 7 per cent, on average, of internal audit staff across the United Nations system. In the JIU surveys, heads of internal audit/oversight reported that their

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[82] Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Government Auditing Professional (CGAP), Certification in Risk Management Assurance (CRMA), Certification in Control Self-Assessment (CCSA), Qualification in Internal Audit Leadership (QIAL), Certified Financial Services Auditor (CFSA).

[83] On the role of internal audit in fraud detection and control, see JIU/REP/2016/4, chap. VII, sect. H.

greatest future resource needs were for IT auditors, risk management and business process specialists. Overall, only 56 per cent of heads of internal audit/oversight were satisfied with the skill set of their staff to meet the needs of their internal audit services.

164. Stakeholders' perceptions, gathered through the surveys and interviews, indicate that many internal audit services are perceived as having a homogeneous set of skills and experience, rather than as a diverse and multi-talented team. Some respondents to the JIU surveys mentioned a lack of staff with skills in human resources management, project management, information technology and other areas critical to their clients' operations.

165. One of the often-cited business advantages of internal audit, particularly when compared to external audit, is the degree of business knowledge of the staff, which results in a better understanding of the organization's business processes. However, in many instances, business knowledge can be improved upon. In the interviews, a common complaint on the part of senior management was the lack of understanding on the part of internal auditors of the business operations and context.

166. In this regard, some good practices were noted in some internal audit services that made a point of hiring some staff from business units, including in the field, in order to transfer this knowledge to the team, while others arranged temporary secondments of staff to participate in specific audits.[84] When working under the close supervision of professional internal audit staff, which ensures the quality of outputs, the temporary staff are able to inject useful business knowledge into the work of the audit teams. Although it is essential to have a core of experienced internal audit professionals to provide best services to clients, internal audit services should also seek to augment their core team with additional professionals with expertise in other areas, based on an assessment of the highest risks facing their clients. However, it is important that the independence and objectivity of the internal audit service, including their perception by auditees and the governing body, are carefully preserved when secondments form part of the strategic staffing plan.

167. A staffing plan is an integral element of a long-term strategic internal audit plan. **Heads of internal audit/oversight are encouraged, as appropriate for the size of the office, available resources, work environment and required procedures, to develop a strategic staffing and succession plan. This plan should identify the knowledge, skills and competencies required to effectively achieve the internal audit mandate, strategy and annual workplan. It should also include a professional certification target for existing staff and a required certification level for new staff, and the requirements for specialty resources and appropriate core business knowledge.**

Professional development

168. According to the IIA Standards (2012), internal auditors must enhance their knowledge, skills and competencies through continuing professional development. Internal audit proficiency is demonstrated by obtaining professional internal auditing certification, such as the Certified Internal Auditor and other designations, offered by the IIA and other professional organizations.[85] After obtaining internal auditing certification, internal auditors are required to complete a minimum of 40 hours per year in professional development activities. While only necessary to maintain accreditation, this level of training provides a good benchmark for all professional internal audit staff.

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[84] Compare also JIU/REP/2016/2 on succession planning in the United Nations system organizations.

[85] See IIA Standard 1230 - Continuing Professional Development; and Standard 1210 - Proficiency, interpretation, para. 1. See footnote 82 for a list of other internal audit certifications.

169. Across the 22 internal audit services reviewed, there is a high level of inconsistency in training resources allocated to staff: 59 per cent of internal audit services reported that their current training budgets were sufficient, while the others did not have funds for training. This suggests that insufficient financial resources allocated for training may be a primary reason for training gaps in some of organizations. UNDP and UN-Women (which outsources to UNDP), on the other hand, are able to set a budget of up to USD 2,500 per staff member for approved professional training.

170. According to the JIU surveys, just under 40 per cent of internal audit staff felt that the resources allocated for training, in terms of funding and time, were sufficient to obtain and maintain necessary professional qualifications. Analysis of the surveys also indicated that a significant number of heads of internal audit/oversight were dissatisfied with the ability of their current staff to meet the evolving needs of their internal audit services, which suggests that there is a competency gap that is not being met by current training.

171. Meeting the evolving competency and capacity needs of an internal audit service is a continuous challenge. Lack of funding for upgrading the competencies of existing staff was frequently identified as a major aspect in this regard, in the interviews.

172. Notwithstanding other objectives, including the preservation of objectivity and independence, staff rotation schemes, mobility or lateral moves and secondments can have significant benefits in terms of upgrading the capacity of existing staff when integrated with training initiatives. For example, larger internal audit services, such as at FAO, have staff rotation schemes aimed at staff development. As a positive side effect, the existence of an internal audit rotation scheme can also be an important argument to exempt the internal audit function from organization-wide rotation schemes, such as the one recently established in the United Nations Secretariat.

173. Recognizing that there are financial challenges to allocating adequate resources for training, a number of organizations have come up with alternative ways to achieve their training objectives at limited cost. These good practices include sharing training events with other internal audit services; using the meetings of the United Nations Representatives of Internal Audit Services (UN-RIAS)[86]as opportunities for professional development, particularly for smaller organizations, for which participation of one to two staff members in a meeting can make a big impact on overall staff training; and participating in low-cost webinars. Another good practice is to decide on corporate-level training priorities and to offer group training based on the overall needs of the service, thereby reducing the need for expensive individual training activities.

174. A commendable practice is for larger organizations to invite smaller ones to participate in their in-house training programmes. In addition to being cost-effective, this would promote cross-fertilization, inter-agency networking and knowledge sharing. The Inspectors therefore encourage this practice.

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[86] UN-RIAS is a forum to promote the development and exchange of United Nations internal audit and oversight related practices and experiences. UN-RIAS is part of the Meeting of Representatives of Internal Audit Services (RIAS) of United Nations organizations and multilateral financial institutions and other associated intergovernmental organizations.

Recommendation 8

Executive heads of United Nations system organizations that have not yet done so should provide adequate funding for professional development, as requested by the heads of internal audit/oversight, including coverage of costs for maintaining professional certification, with key performance indicators established to monitor training and certification goals for internal audit staff.

C. Value and credibility of the function

175. The value of internal audit is ultimately to the organization it serves. In order for internal audit to provide the most value, it must be aligned with the organization's strategy and the expectations of the executive head, senior management and the governing body. The Inspectors surveyed perceptions of key internal audit stakeholders across the United Nations system to gain their views on the value proposition of internal audit. All groups of respondents expressed high levels of agreement with the statement: "Internal audit has successfully become a critical element of the accountability structure for the organization" (see annex VI).

176. More than half of the executive heads and governing bodies agreed that the head of internal audit/oversight plays an important role in the organization and provides valuable assistance to help the governing body discharge its responsibilities.

177. Based on the results of the JIU surveys, it appears that, overall, internal audit is providing executive heads with independent assurance and useful and objective advice. This is an important accomplishment for internal audit services across the United Nations system. However, other stakeholders, predominantly governing bodies and senior management, expressed a lower level of satisfaction with internal audit. In the Inspectors' view, this may indicate that internal audit should increase its efforts to reach out and interact more strategically with these two key stakeholders so as to better serve their needs.

VI. REPORTING ON RESULTS AND FOLLOW-UP

178. In order to fulfil their mission effectively, internal audit services must continuously communicate the results of their work. The communication of results includes disseminating findings and recommendations to stakeholders in the interest of transparency and accountability and ultimately to improve the organization's good governance processes;[87] it also includes following-up on the implementation of audit recommendations.

A. Internal audit reports and recommendations

Internal audit reports

179. Internal audit reports provide a key element of organizational learning and improvement. They are shared regularly with the executive head and the senior manager responsible for the entity that was audited. In order for these reports to be effective, they need to provide clear evidence-based analysis and advice with actionable recommendations for change.

180. Across the organizations, stakeholder perceptions on the clarity of reporting and the utility of audit recommendations were mixed. Based on the responses to the JIU surveys, in general, only about half of audit or oversight committee members, senior managers and external auditors agreed with the statement: "Internal audit reports are clear and of high quality". Senior managers, in particular, expressed a need for the internal audit function to carefully develop its reporting and recommendations and ensure that recommendations are clearly expressed and support achievable and effective improvements. Executive heads, on the other hand, were more positive, and two thirds agreed with the statement. While it is felt that, in general, internal audit reporting has improved for organizations that have adopted public disclosure of internal audit reports, these results suggest room for improvement. [88]

Internal audit recommendations

181. Perceptions expressed by JIU survey respondents with regard to the utility of internal audit recommendations showed a wide variance among stakeholders. For example, 89 per cent of executive heads were satisfied that the internal audit recommendations were "insightful, impactful and constructive". However, only 29 per cent of senior managers, to whom the recommendations were addressed, agreed with the same statement (see annex VI for details).

182. In the current context of financial constraints, notable among senior management is an increased desire for recommendations that consider value for money and the need for efficiency gains in the United Nations system; the most valued audit recommendations respect current funding realities. However, while this position is a valid one, it must be weighed by internal auditors who make their recommendations not only on the basis of their professional judgement, but also on the implied risk to the organization. Ultimately it is up to management to decide to manage or take risks in the light of business objectives and budget constraints.

183. Good practices noted in some internal audit services, such as, inter alia, the International Monetary Fund (IMF), the World Bank, UNICEF and FAO, involved working closely with management to arrive at mutually-developed action plans to replace traditional audit recommendations. This improves the likelihood that audit results will be accepted. However, stakeholders interviewed suggest that this process must be carefully managed to preserve the

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[87] See IIA, "Leading practice: Transparency of the internal audit report in the public sector", December 2012.

[88] Even though English is the working language in most United Nations system organizations, it should be taken into account that many staff members are non-native English speakers.

independence and ability of internal audit to present views that diverge from those of management.

184. **Heads of internal audit/oversight should pay particular attention to the usefulness of audit recommendations as a catalyst for positive organizational change. Value for money should be taken into consideration in the development of effective internal audit recommendations, although not at the expense of a thorough consideration of risk, to ensure that expected actions are achievable and effective in mitigating risk.**

Annual internal audit reports

185. While individual internal audit reports are an institutionalized practice, there is much value in annual or periodic reporting that can summarize and synthesize results across audit engagements. JIU has previously recommended the practice of communicating overall results in the form of an annual report of the head of internal audit/oversight to the executive head and the governing body.[89] By virtue of that recommendation and otherwise, publishing an annual or periodic report is standard practice for all 22 internal audit services.

186. Before public disclosure of internal audit reports was introduced in some United Nations organizations, periodic reports were often the only form of reporting to the governing bodies and external parties by internal audit services. They remain key accountability documents, because they serve an important need for synthesized information on trends and overall results that is not available from individual reports. In some organizations, periodic reports are the only means of publicly reporting internal audit results.

187. While the nature, span and operational considerations for annual reporting differ in the United Nations system organizations, the case of the World Bank provides an example of good practice. The World Bank produces a publicly available annual report that includes a broad thematic discussion on internal audit results and what they mean for the organization.[90] This report also provides a summary of the objectives and main findings of each audit and advisory engagement conducted. Stakeholders are particularly satisfied with the report as they find that its format is well-constructed, and it provides thematic results and relevant audit information in a concise and accessible manner.

188. In JIU/REP/2010/5, JIU made a recommendation as to the content of such annual reports: they should refer to the implementation of the audit plan, major risks, the audit ranking of the audited entities, governance and control issues, key findings, recommendations and implementation of prior outstanding recommendations, as well as any issues, such as independence, resources or other factors that impact negatively on the effectiveness of the audit activity.[91]

189. An analysis of annual audit reports undertaken in the context of the present review indicated that the vast majority of reports included at least a summary of each engagement undertaken or grouped engagements by types of audits and areas for improvement. A good practice with regard to informing the governing body about management responsiveness, noted in the vast majority of annual reports, was the inclusion of information on the implementation of previous internal audit recommendations (see sect. C below for details). However, it should be noted that, normally, the annual report of an internal audit service has a word limit (owing to the need for translation into six languages for the governing body) and may also have to cover other functions, such as investigation and evaluation, which further limit its content.

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[89] See JIU/REP/2006/2, recommendation 11; and JIU/REP/2010/5, recommendation 8.

[90] World Bank, *Internal audit vice presidency annual report 2015*, 23 December 2015.

[91] JIU/REP/2010/5, recommendation 8.

190. **The Inspectors reiterate JIU/REP/2010/5, recommendation 8, that the annual internal audit report serves as an important accountability tool for the governing body. Annual reports should address internal audit activities comprehensively, including the results of audit engagements in the internal audit plan; the independence of the function; the sufficiency of resources in relation to the risk-based audit plan and the status of management actions with respect to previous audit recommendations.**

Overall opinion on risk, control and governance processes

191. Internal audit functions in the United Nations system are exceptionally well placed to provide an overall perspective on organizational oversight. Professional auditing standards require internal audit to coordinate activities and share information with other internal and external providers of assurance.[92]

192. Providing an overall (or macro-level) opinion on risk, control and governance processes of the organization requires the aggregation and interpretation of findings over time and from multiple sources.[93] This is easier in organizations that have both mature internal audit services and management oversight functions (second line of defence), in which the heads of internal audit/oversight are best positioned to analyse their own findings and those of other oversight actors in order to come to some high-level conclusions based on the overall body of oversight work completed.

193. Providing such an overall opinion in the internal audit annual report is ambitious and a notable good practice, which, however, has significant prerequisites and related costs, in particular, as management has to put in place a strong second line of defence (including ERM and a statement of internal control process). Only three organizations reviewed (UNICEF, WFP and WMO) indicated that their internal audit function is required to provide such an overall opinion.[94] JIU interviewees suggested that the second line of defence, which was not yet sufficiently mature, was indeed the major challenge with regard to the provision of overall opinions. Another challenge for internal audit services is capturing the results of other oversight functions. Finally, the risk profile and operational scope of the organization would also have to be considered in determining the depth and breadth required of an overall opinion.

194. Interestingly, around 30 per cent of the organizations indicated that their overall work plan is designed to provide a comprehensive overall opinion.[95] This is an excellent base and could indicate that heads of internal audit/oversight are preparing to provide an overall opinion in the future. How these opinions are arrived at will require consideration of a number of parameters specific to each organization, including the extent to which the internal audit service can rely on management oversight processes in the development of the opinion; the level of assurance required based on the risk profile of the organization and stakeholders' assurance requirements; and the extent to which there are sufficient internal audit resources to achieve this aim.

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[92] See IIA Standard 2050 - Coordination.

[93] IIA, "Practice Guide: Formulating and expressing internal audit opinions", April 2009, sect. 3.2.

[94] Since the conclusion of the data collection for this review, four other organizations have adopted the requirement for an overall opinion: UNDP, UNFPA, UNOPS and UN-Women. Of the seven organizations that provide an overall opinion, five provide an opinion based on the work done (UNDP, UNICEF, UNFPA, UNOPS and UN-Women). In 2016, UN-RIAS was also preparing a position paper on the organization-wide audit opinion.

[95] These are IMO, UNDP, UNIDO, UNICEF, WFP, ITU and WMO.

195. **The provision of an overall opinion on governance, risk and compliance[96] should be an aspiration of internal audit services in the United Nations system. The overall opinion should be presented in the annual internal audit report and provide an analysis of key themes, risks and other relevant oversight issues over time, drawing as much as possible on evidence from other oversight assurance providers.**

B. Transparency and accountability through public disclosure of internal audit reports

196. United Nations organizations depend on member States' contributions for their operations; as a result, they must demonstrate accountability in their use of funds. Internal audit provides an important source of accountability in this regard.

197. In JIU/REP/2006/2, JIU recommended that individual internal audit reports, as well as inspection and evaluation reports, should be provided to the governing bodies, on request.[97] The Inspectors note the progress made in this regard. Based on the responses to the JIU questionnaire, 14 out of the 22 (64 per cent) internal audit services reviewed make individual internal audit reports available to their governing bodies. In WHO and ITU, among others, the reports are available to member States by remote access and special requests do not have to be made for this information. ITU makes both the audit report and management response available, which gives member States full information. This is a good practice. **The Inspectors strongly encourage the organizations that do not currently share individual internal audit reports with their governing bodies to do so with urgency.**

198. In fact, according to the JIU surveys and interviews, it appears that there is increasing demand on the part of member States to make internal audit reports publicly available on external websites. Currently, 11 internal audit services (50 per cent) post internal audit reports on their websites.

199. The Inspectors noted some challenges with respect to the public sharing of individual internal audit reports. Traditionally, these reports have been viewed by management as internal documents designed to improve practices. While sharing these reports with the governing bodies is, in the view of the Inspectors, a necessary element of internal accountability, some interviewees expressed concern that sharing the reports publicly may threaten the utility of these documents to provide open and unfiltered advice and promote discussion and resolution of organizational challenges. In their view, the close and trusted nature of the relationship between internal audit and management could be challenged in the public sphere by media attention.

200. Furthermore, some senior managers in United Nations system organizations indicated that they tended to be less open and frank with internal auditors in the face of public disclosure. It is likely that many senior managers are generally not supportive of having institutional weaknesses identified in internal audit reports that will be published externally.

201. The IIA Standards (2012) are aligned with the private-sector model, in which internal audit reports are rarely made public. While the Standards do allow for the external sharing of internal audit reports, external communications are subject to a number of special considerations and

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[96] See IIA Standard 2000 - Managing the Internal Audit Activity, interpretation. The internal audit function adds value when it "contributes to the effectiveness and efficiency of governance, risk management and control processes".

[97] JIU/REP/2006/2, recommendation 11.

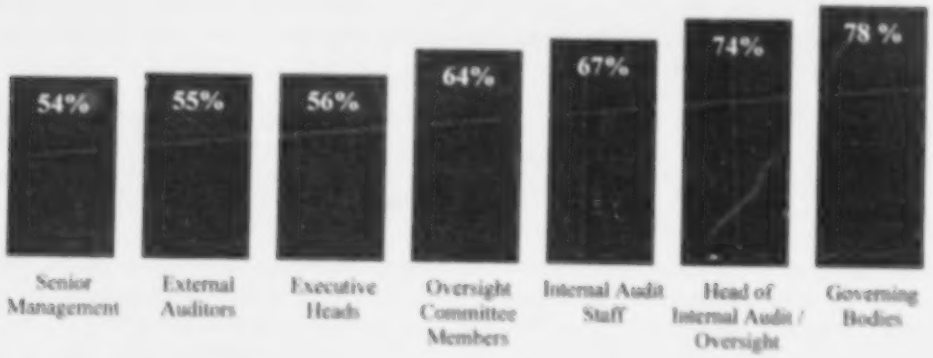
qualifications,[98] including: an assessment of risk, consultation with senior management and/or legal counsel, and control of dissemination by restricting the use of the results.

202. One benefit of public disclosure that was noted from interviews is the improvement in the quality of reporting, with auditors making their reports more reader-friendly. However, there are also associated costs owing to the need for enhanced editing to ensure a high reader-friendly quality for a public readership. Some organizations use the services of a professional editor to ensure that their audit reports are of a consistently high quality. High-quality audit reports for public disclosure may not be attainable for smaller internal audit services that are unable to afford such a service.

203. The above interview findings were confirmed by the JIU surveys where only slightly more than half of senior management favoured the policy of public disclosure of internal audit reports. The groups most in favour were governing bodies and heads of internal audit/oversight (see figure 9 below).

Figure 9: Stakeholders in favour of the public disclosure of audit reports

Are you in favour of the public disclosure of all internal audit reports on the public webpage of the organization (withholding confidential information)?



Source: JIU 2015 surveys

204. In 2013, a UN-RIAS working group examined the issue of public disclosure and prepared a discussion paper, which contains a comprehensive review of key considerations.[99] The work included a survey of United Nations organizations regarding their motivation for public disclosure. According to the results of that survey, the most compelling reasons for public disclosure were external ones, such as providing confidence to outside parties that rely on internal audit and increasing transparency with key external stakeholders, in particular member States and donors. Internal reasons, such as presenting learning opportunities, were seen as less important, although it was noted that public disclosure could help to improve internal governance processes.[100]

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[98] IIA Standard 2440 - Disseminating Results, more specifically 2440.A2.

[99] UN-RIAS Working Group, "Public disclosure", Discussion paper No 1, Principles for guidance note, September 2013.

[100] Ibid.

205. For the present report, the disclosure practices of some national governments and international organizations outside the United Nations system were reviewed. The Inspectors noted that the World Bank does not share individual audit reports publicly, but instead publishes an overview containing individual audit summaries and results on an annual basis.[101] The European Commission also does not share internal audit reports publicly.[102] Some national governments have well-established processes of posting their internal audit reports on public websites, in the name of open and transparent government.

206. Ultimately, internal audit has to serve the needs of its stakeholders, of which governing bodies are a major one. For this reason, individual internal audit reports should be made available to governing bodies, on request. It is a good practice for these reports to be available on internal intranet sites or secure portals. For the sake of transparency, some member States may prefer individual internal audit reports to be made available on a public website. Furthermore, annual reports on internal audit results should be shared publicly, as they can provide important high-level summaries and discussions of thematic results that would be suitable for external stakeholders.

207. **A decision on the public disclosure of individual internal audit reports must be made by the governing body of each organization, taking into account the need to preserve the usefulness of internal audit reporting as a tool for organizational improvement.**

C. Follow-up on recommendations

208. IIA Standards (2012) require internal audit to report periodically on the status of management action plans developed in response to audit recommendations.[103] This reporting garners support at the highest levels of the organizations for effective corrective action to address identified deficiencies and to provide information about risks accepted by management when choosing not to follow internal audit recommendations.

209. This is an important topic and in both JIU/REP/2006/2 and JIU/REP/2010/5, JIU raised the need to strengthen procedures in place for tracking and following up external and internal oversight recommendations.[104] Internal audit services reported good progress in this regard. In responses to the JIU questionnaire, all 22 internal audit services reported that they have an established follow-up process in place that required management to report on the status of internal audit recommendations. Furthermore, the results of the follow-up are also verified by internal audit services and reported to executive heads in all 22 organizations.

210. Governing bodies are also interested in the extent to which management follows up on internal audit recommendations and generally receive this information through the annual report on internal audit results. The vast majority of annual reports published by internal audit services include this information. Of the services that produce annual reports, 84 per cent include an analysis of the ageing of outstanding responses and 79 per cent report specifically on long-outstanding recommendations, which should be noted as good practices.

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[101] See, for example, World Bank, *Internal audit vice presidency annual report 2015*, 23 December 2015.

[102] JIU interview with European Commission official, October 2015, Brussels. It should be noted, however, that such reports may be available to the public, in redacted form, on the basis of a particular request, under European Commission Regulation No. 1049/2001 of the European Parliament and of the Council of 30 May 2001, regarding public access to European Parliament, Council and Commission documents.

[103] See IIA Standard 2500 - Monitoring Progress.

[104] See JIU/REP/2010/5, recommendation 9; and JIU/REP/2006/2, recommendation 12.

211. With respect to management monitoring of audit follow-up, eight internal audit services (36 per cent) have senior level management committees that are responsible for reviewing the status of internal audit and other oversight recommendations.[105] A good practice was noted at WFP, which has established a central unit to follow up and report on recommendations made by internal audit, external audit and JIU. UNDP maintains a central web-based database, which allows real-time reporting on the status of internal and external recommendations as well as those resulting from projects that are implemented nationally. At UNOPS, follow-up is managed by a central function and reported to management on a monthly basis.

212. It is a leading practice to have a centralized unit or mechanism that coordinates follow-up and reporting on all oversight recommendations, including those of external audit, internal audit and JIU, and to provide an analytical overview of the status of recommendations to the governing body. Supplementing such a unit or mechanism with regular follow-up by management committees on all oversight recommendations is another good practice that is feasible for organizations. To further improve follow-up of recommendations, audit/oversight committees could also be given a role in this regard, as further discussed in chapter VII.

213. **The Inspectors reiterate recommendation 9 of the 2010 report that follow-up on the results of internal audit and other oversight functions needs to be as rigorous as the audit execution and reporting. While follow-up processes appear to be well-established among internal audit services in the United Nations system organizations, this good practice could be extended to include all oversight recommendations. Due to their independence, heads of internal audit/oversight with a range of oversight responsibilities could play an important role in assisting executive heads with the verification of recommendation implementation across their assigned oversight areas.**

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[105] The following organizations reported that they have a management committee in place to follow-up on the acceptance and implementation of audit recommendations: UNRWA, UPU, United Nations Secretariat, WHO, UNHCR, UNDP, UNICEF and UNFPA.

VII. OVERSIGHT COMMITTEES AND THE INTERNAL AUDIT FUNCTION

214. In JIU/REP/2006/2, JIU recommended that governing bodies establish independent external oversight boards, or oversight committees, to represent the collective interests of governing bodies in oversight matters.[106] The Inspectors support this recommendation and note that the practice of instituting oversight committees has become well-established in the United Nations system.

215. In JIU/REP/2010/5, JIU defined oversight committees as follows: "*Independent advisory expert body set up with the purpose of, inter alia, reviewing the accounting and financial reporting process, the system of internal control, the risk and audit process, and the process for monitoring compliance with financial rules and regulations and the code of conduct. As such, [oversight] committees are part of the governance structure of the organization and a prerequisite for good governance.*"[107]

216. Oversight committees have undergone a significant evolution and maturation in the past decade. At the time of the 2006 JIU report, the prevailing model was that of an internal oversight committee serving as a management tool. Today, the majority of organizations have reconstituted their oversight committees as external, independent and expert-based advisory bodies with a hybrid reporting arrangement to both executive management and governing bodies. A few organizations continue to maintain their oversight committees as part of their governing bodies. Notwithstanding how they are structured, oversight committees need to be firmly anchored within the United Nations system oversight architecture and serve a clear and defined role in support of internal audit so as to best serve the executive heads and governing bodies.

217. Oversight committees in the United Nations system organizations play a critical role in assisting both executive heads and governing bodies to strengthen oversight and to navigate the complexities and interrelations between the various oversight bodies, in particular external audit and internal audit. In the majority of cases, the level of expertise that is afforded by individual committee members, coupled with their independence from the management of the organizations, make them a unique and powerful source of advice. They advise on the effectiveness of internal controls, risk management and governance, ethics arrangements and financial reporting. IIA views independent oversight committees as a mandatory part of public sector governance.[108]

218. With respect to internal audit, oversight committees play a key role in the United Nations system to ensure the independence and effectiveness of the internal audit function. IIA Standards (2012) require certain functional reporting relationships between boards and internal audit that may not be suitable in the context of United Nations system governing bodies. Oversight committees were established to fill this void and to provide independent expert advice and guidance to United Nations organizations on, inter alia, internal audit matters.

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[106] JIU/REP/2006/2, recommendation 1.

[107] JIU definition contained in JIU/REP/2010/5, page 44. RIAS describes oversight (audit) committees as independent advisory expert bodies whose primary purpose is to assist the governing body and the executive head in fulfilling their oversight and governance responsibilities, including the effectiveness of internal controls, risk management and governance processes (see RIAS, "The audit committee in United Nations entities and multilateral institutions", Position statement from Representatives of Internal Audit Services of the United Nations entities and Multilateral Institutions (RIAS), 30 July 2009, p. 1); and IIA, which defines oversight (audit) committees as "a public-sector organization board-level committee made up of at least a majority of independent members with responsibility to provide oversight of management practices in key governance areas" (see IIA, *Global Public Sector Insight: Independent Audit Committees in Public Sector Organizations*, June 2014, p. 4).

[108] See IIA, *Global Public Sector Insight: Policy Setting for Public Sector Auditing in Absence of Government Legislation*, October 2014, p. 13.

219. The Meeting of Representatives of Internal Audit Services of United Nations Organizations and Multilateral Financial Institutions (RIAS) has contributed to the effective functioning of internal audit by preparing a comprehensive position statement outlining relevant recommended practices for oversight committees in the unique context of the United Nations and multilateral system, including a role to strengthen communications between oversight providers and management of the organizations.[109]

220. In previous reports, JIU provided guidance on oversight committees, including on their situation within an organization and the need to maintain fluent and objective relationships with key players, inter alia, internal and external audit. However, this chapter addresses the role of oversight committees in support of the internal audit function (see review objectives in chap I, sect. B above) and necessarily focuses on the specific elements of oversight committees that impact on and accelerate the effectiveness of internal audit.

A. Oversight committee governance

Establishment of oversight committees

221. To date, 18 of the 22 internal audit services reviewed have established oversight committees (see annex I for details). Each service has an approved charter that sets out its mandate, responsibilities and scope of work.[110]

222. Four organizations, namely UNIDO, IMO, UNAIDS and IAEA, do not have oversight committees in place. In some cases, associated costs (travel, interpretation, translation, staff support, etc.) are seen as a prohibitive factor in establishing such a committee. However, the Inspectors believe that the organizational benefit of an oversight committee would outweigh the associated costs. There are a number of ways in which costs can be minimized, including by having smaller committees and holding meetings by videoconference. Sharing committee members with other organizations and therefore the associated recruitment and administrative processes, can also be a cost-effective strategy for smaller organizations.

223. UNAIDS does not have its own oversight committee as its internal audit services are provided by WHO and its annual internal audit report is presented to the UNAIDS Programme Coordination Board, which serves as an oversight committee. UN-Women, on the other hand, has an outsourced internal audit model, but has its own oversight committee.[111] Even though UNHCR falls under OIOS, it has its own oversight committee.[112] The other organizations utilizing OIOS services use the Independent Audit Advisory Committee (IAAC) of the United Nations Secretariat as their oversight committee.

224. In some cases, oversight committees may be established as a subset of the governing body. This has some advantages, such as reduced costs by making use of the on-site presence of delegates, and provides a strong voice through the direct link to the governing body. However, one important limitation is that committee members may not have the external expertise and independence necessary to provide the full range of advice required, compared to an oversight committee whose members are selected primarily on the basis of their expertise in oversight

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[109] RIAS, "The audit committee in United Nations entities and multilateral institutions", Position statement from Representatives of Internal Audit Services of the United Nations entities and Multilateral Institutions (RIAS), 30 July 2009.

[110] In some instances, the charter of the oversight committee is called "terms of reference" or similar. For the purposes of this report, the term "charter" will be used.

[111] UN-Women outsources its internal audit to UNDP.

[112] UNHCR has its own oversight and advisory committee, the Independent Audit and Oversight Committee (IAOC), as does the United Nations Joint Pension Fund, for which auditing services are also provided by OIOS.

matters. The effectiveness of the oversight committee as a subset of the governing body could also be impacted by a more limited meeting schedule. In order to be effective, an oversight committee must interact at regular intervals with key organizational departments, which may be more often than scheduled meetings of the governing body.

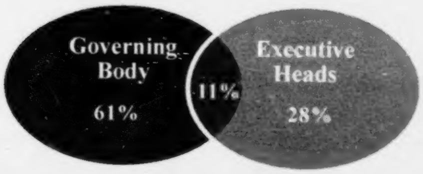
225. **In the view of the Inspectors, and in support of previous JIU recommendations,[113] organizations that do not have an independent oversight committee[114] should conduct a thorough analysis with a view to establishing one, in line with good practice.**

Role of the governing body

226. Oversight committees are intended to support both the executive heads and the governing bodies, and as noted previously, play a particular role in internal audit oversight. In JIU/REP/2010/5, JIU recommended a role for governing bodies in (a) the approval of the oversight committee charter; (b) the selection of members of the oversight committee; and (c) the reviewing of the annual report on oversight committee activities.[115] While the role of the executive head in this relationship is generally well established, the Inspectors note that, in a significant number of organizations, the level of oversight involvement of the governing body with respect to the oversight committee could be improved.

227. Given the importance of the charter in defining the mandate, responsibilities and reporting relationships of the oversight committee, in 2010 JIU recommended that the charter of the audit/oversight committee be reviewed every three years and that any changes be submitted to the governing body for approval.[116] Since 2010, progress has been made in this regard; at present, 72 per cent of governing bodies (see figure 10) have a role in the approval of the charters of oversight committees. Nevertheless, a few United Nations system organizations, UNFPA and UNDP for example, based on their current practices, continue to believe that the charter of the oversight committee is best left to the approval of the executive head.

Figure 10: Responsibility for the approval of the charter of the oversight committee



Source: JIU 2015 questionnaire

228. Once an oversight committee is established as a part of the oversight architecture of an organization, a good practice is to include its role and mandate in the rules and regulations of the organization. This would include, inter alia, responsibilities with respect to internal audit. IIA recommends that oversight committees should be recognized through a formal mandate.[117]

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[113] See, for example, JIU/REP/2006/2, recommendation 1.

[114] Some organizational units of the United Nations Secretariat are also not covered by IAAC.

[115] See JIU/REP/2010/5, recommendations 16-18.

[116] JIU/REP/2010/5, recommendation 16.

[117] IIA: *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, 2nd edition, January 2012, p. 24.

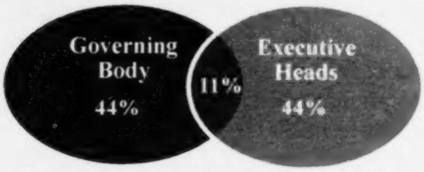
229. **The Inspectors reiterate recommendation 16 contained in JIU/REP/2010/5 that the charters of oversight committees should be approved by the governing bodies and their mandates should be appropriately included in the organizational rules and regulations.**

Selection and approval of oversight committee members

230. In JIU/REP/2010/5, JIU recommended that the members of oversight committees be appointed by the governing bodies.[118] Given the need to have a balanced and qualified committee membership, the review of candidate profiles and their shortlisting is normally administered by the executive head of the organization. The assistance of the head of internal audit/oversight may be sought to provide professional advice on internal audit matters and to support the process in general. With regard to filling vacancies, existing committee members may participate in the selection process. In some cases, the governing body may also nominate candidates for membership in an oversight committee.

231. In the JIU questionnaire, organizations were asked to report on their practices with respect to the appointment of committee members. Only 44 per cent of the organizations reviewed have implemented the recommendation to have the governing body approve the recruitment of members to the oversight committee. This is in contrast to the higher share of governing bodies involved in approving the charter of the oversight committee (see figure 11 below).

Figure 11: Responsibility for the approval of oversight committee members



Source: JIU 2015 questionnaire

232. During JIU interviews, in organizations where the selection and appointment of oversight committee members were made mainly by the governing bodies, interviewees noted that the process became politicized and the best candidates were not necessarily selected. Overall, when committee members are selected by the executive head with the support of the head of internal audit, the selection of members is less politicized.

233. **In the view of the Inspectors, the selection process for oversight committee members should be led by the executive head, who would provide a report and recommendation to the governing body. In order to preserve the independence of the members of the oversight committee and in accordance with previous JIU recommendations,[119] it is imperative that the governing body play an approval role in the final selection.**

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[118] JIU/REP/2010/5, recommendation 17.

[119] See JIU/REP/2006/2, recommendation 1; and JIU/REP/2010/5, recommendation 17.

Training and networking for oversight committees

234. In order to maximize their value to internal audit, oversight committee members need to have a good understanding of their mandate and the United Nations system organizations that they serve. Best practices to achieve this goal are orientation sessions and induction training for new members, as well as the provision of networking opportunities to share information between committees.

235. Providing formal training and networking opportunities for oversight committee members would enhance their value to United Nations system organizations. Oversight committee members interviewed indicated that a network would be potentially very beneficial and would be a way to improve the value that the committees could provide. Such networking activities would be of particular value to smaller organizations that may not have the resources to develop their own training and induction programmes for oversight committees.

B. Mandates of oversight committees with respect to internal audit

236. The mandate of the oversight committee, as described in its charter, must be sufficient to effectively guide the work of the committee and give it the authority and administrative support necessary to achieve its objectives, including those pertaining to internal audit.[120] The mandate is of importance internally to the organization in order to allow the committee access to people and information necessary to carry out its duties. In that regard, JIU recommended that the mandates of oversight committees include review of the performance of both internal and external audit as well as other responsibilities, including governance and risk management.[121]

237. For the present report, JIU reviewed the content of charters of oversight committees. In general, all the charters have a good definition of the overall responsibilities of the committees in relation to internal control, risk management and oversight processes. All the charters provide a generally sound basis for overseeing internal audit (see table 2 below).

Table 2: Roles of oversight committees in relation to internal audit as set out in the charters
(Percentage share of 18 oversight committees)

	Review and feedback role	No role	Other roles
Internal audit plan	83	6	11
Internal audit budget and resources	83	0	17
Internal audit charter	72	22	6
Head of internal audit/oversight appointment and termination	61	39	n/a

Source: JIU 2015 analysis of oversight committee charters

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[120] See also RIAS, "The audit committee in United Nations entities and multilateral institutions", Position statement from Representatives of Internal Audit Services of the United Nations entities and Multilateral Institutions (RIAS), 30 July 2009.

[121] See JIU/REP/2010/5, recommendation 15.

Role with respect to internal audit plan and budget

238. Governing bodies should rely on oversight committees to provide functional guidance and advice to them with regard to internal audit in order to ensure the independence of the service. One area concerns the completeness of the internal audit plan and the sufficiency of the internal audit budget to adequately address the highest-risk areas of operation.

239. In only about one third of cases, the oversight committees provide their opinion on the internal audit plan to the executive heads. It is a best practice, in United Nations system organizations, for oversight committees to provide their expert views on the sufficiency of the internal audit plan, including its resourcing, directly to the executive heads as well as to the governing bodies, in their annual report.

Role in staffing the head of internal audit/oversight

240. While the governing body should, at a minimum, be formally informed and given the opportunity to provide comments and ask questions concerning any staffing action for the post of head of internal audit/oversight,[122] the oversight committee is well situated to provide an independent opinion and expert advice on all decisions relating to staffing and terminating the head of internal audit/oversight. This is considered a good practice in line with IIA Standards (2012),[123] and should be replicated throughout the United Nations system organizations that have an oversight committee.

Reporting

241. To be able to fulfil its mandate, it is essential that the oversight committee report on the results of its work to the executive head and governing body.[124] In the United Nations system organizations, reporting relationships with executive heads appear to be well developed. However, evidence suggests that the reporting relationships with the governing bodies are less well established.

242. In its report JIU/REP/2010/5, JIU recommended that the Chairs of oversight committees should submit an annual report to the governing bodies with comments from the executive heads.[125] In the present review, JIU found that the practice of reporting annually to governing bodies is observed by about half of the oversight committees. Furthermore, in the JIU surveys, only half of the members of governing bodies who responded indicated their agreement that the oversight committee is "*an effective part of the governing body's oversight mechanism*".

243. In order to maximize the utility of the guidance that the oversight committee provides, it is important that it to be able to submit an independent report on its activities and opinions directly to the governing body. This is not currently the case in all organizations. In some cases the oversight committee report is appended to the annual internal audit report; in others, the report is presented as an attachment to the report of the executive head. It was also noted that, frequently, the Chair of the oversight committee did not have the opportunity to be present when the report was submitted for consideration. It is important that oversight committees are able to present their views freely and in person when their reports are submitted so as to discuss and answer any questions from the governing body.

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[122] See also JIU/REP/2006/2, chap. III and recommendation 10.

[123] See IIA Standard 1100 – Independence and Objectivity, interpretation.

[124] See Cutler, Sally, *Audit Committee Reporting: A Guide for Internal Auditing*, IIA Research Foundation, 2009.

[125] JIU/REP/2010/5, recommendation 18.

Role in support of internal audit

244. In the interviews, oversight committee members indicated that they had generally close relationships with internal audit services. The mandates of oversight committees with respect to internal audit appear well established. In the majority of the organizations, there is regular interaction with oversight committees on the main products and at key junctures in the work of internal audit throughout the year.

245. The annual internal audit report, budget and workplan, and the report on follow-up to previous audit recommendations are foundational elements of internal audit oversight and are provided on a regular basis to oversight committees uniformly across the United Nations system. The oversight committees also received individual audit and advisory reports, as well as reports from the investigation function, which are necessary to provide effective overall assurance to the governing bodies and executive heads (see table 3 below for details).

Table 3: Documents regularly provided to oversight committees by internal audit
(Percentage share of 18 oversight committees)

Annual internal audit report	100
Internal audit budget and workplan	100
Follow-up on internal audit recommendations	100
Revisions to budget and workplan	89
Individual audit (assurance) reports	78
Investigation reports	72
Individual advisory reports	56

Source: JIU 2015 analysis

246. Based on the JIU surveys, the Inspectors noted that the relationships between the oversight committees and the heads of internal audit/oversight were rated positively. The majority of oversight committee members (92 per cent) and heads of internal audit/oversight (84 per cent) agreed that the head of internal audit/oversight in the organization has appropriate formal and informal access to the oversight committee to freely discuss any areas of concern. Furthermore, most stakeholders were positive about the role of the heads of internal audit/oversight in assisting the oversight committees.

Requirements for effectiveness

247. Oversight committees have emerged as an important and necessary element of governance and play a significant role with regard to internal audit vis-à-vis the governing bodies. This responsibility is discharged through the annual report of the oversight committee to the governing body. It is through the intervention and support of the oversight committees that the internal audit function can most effectively and independently provide assurance and advice to executive heads and governing bodies.

248. **In the present and previous JIU reports, the Inspectors have made recommendations aimed at strengthening the organization and governance of oversight committees. In order for oversight committees to support the internal audit function to their fullest potential, a number of conditions for effectiveness, independence and expertise need to be in place:**

(a) The charter and composition of the oversight committee should be approved by the governing body, and the committee's mandate should be included, as appropriate, in the organizational rules and regulations;

(b) The oversight committee should review the risk-based internal audit plan and budget of the internal audit function and provide an opinion on their adequacy to the governing body and executive head;

(c) The oversight committee should review the annual internal audit report, including the statement on independence, and provide an opinion to the governing body;

(d) The annual report of the oversight committee, including the report on internal audit activities, should be presented separately from the organization's management report directly to the governing body, at least once a year, and the Chair of the oversight committee should be present at the meeting to answer questions;

(e) The oversight committee should review any decisions relating to the staffing of head of internal audit/oversight, including recruitment and termination of contract, and provide an opinion to the governing body.[126]

Recommendation 9

Governing bodies of United Nations system organizations should ensure that the conditions for effective, independent, expert oversight committees are in place, and that the committees are, and continue to be, fully functional in line with previous Joint Inspection Unit (JIU) recommendations, as reinforced in this report.

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[126] These points reiterate the recommendations on oversight committees made in previous JIU reports. See JIU/REP/2006/2, recommendation 1; and JIU/REP/2010/5, recommendations 15, 16, 17, and 18.

VIII. HARMONIZATION OF AUDIT PRACTICES AND COLLABORATION ACROSS THE UNITED NATIONS SYSTEM

249. While the mandates and operations of United Nations system organizations are distinct, there is much merit in ensuring that professional functions such as internal audit promote common practices and elevate standards system-wide. For the internal audit function, in particular, this includes the harmonization of audit report ratings, strengthening inter-agency collaboration (including through UN-RIAS), and instituting joint auditing practices. The challenge facing harmonization is dealing with the diverse operations, business models and risk profiles of the United Nations system organizations.

A. Harmonized audit report ratings

250. In an environment where internal audit reports are increasingly available to the public through public disclosure practices, one area where convergence of practices would be beneficial is in the harmonization and comparability of internal audit reporting. As stakeholders may be inclined to compare audit results of United Nations organizations, it is important to ensure that the ratings of reports and recommendations do not lead to inaccurate comparisons and conclusions. UN-RIAS is well aware of these issues and, in 2015, it prepared a position paper on audit report ratings.

Rating internal audit recommendations

251. A widely accepted practice in internal audit reporting is the use of ratings of recommendations as a means of ranking their relative risk and importance for users in order to understand the impact and urgency of the action required. Internal audit recommendations are usually rated as high, medium or low risk. Based on the responses to the JIU questionnaire, all, but one, of the United Nations system internal audit services assign such ratings to their internal audit recommendations and many also suggest time frames for implementation in the short, medium and long term.

252. Rating individual audit recommendations is seen as a good practice since it focuses attention on the level of risk and urgency required in management's responses and action plans. Senior management officials interviewed also supported this practice.

Rating overall audit results

253. Another practice in audit reporting is the issuance of a standard rating on the overall results of the audit with a synthesis of the various findings. This is intended to provide a more global assessment as to the degree to which the entity audited is effectively meeting its objectives in relation to the stated audit criteria and the frequency with which it should be audited. This is more challenging and complex to implement than the rating of single recommendations, as it generally involves a greater degree of professional judgement.

254. Based on the responses to the JIU questionnaire, a number of United Nations system internal audit services provide some form of standardized rating on overall audit results. Senior management officials interviewed for this review generally welcomed individual audit recommendation ratings, however, they found the overall ratings of audit results to be less useful and more difficult to understand and accept. This was in part owing to the greater level of subjectivity involved, but also the challenges of accepting a single assessment that may not reflect the complexities of the situation or entity being audited.

255. For this reason, some organizations chose not to provide a rating for overall results, but instead provide a conclusion, in narrative format, according to each audit objective. Text-based

overall audit conclusions provide a more objective approach that can be supported by evidence, concrete data and analysis from the audit.

Need for a harmonized approach

256. The fact that many United Nations system organizations have moved to web-based disclosure makes a harmonized approach to audit ratings highly desirable for all publicly available reports. Careful consideration needs to be given to the report to ensure ratings are constructed and used to assert valid comparisons made on a sound basis, and in this regard focus on standardizing individual audit recommendation ratings (rather than overall audit results) is likely to be the more useful approach. **Recognizing the challenges across the diverse operating environments, business models and risk profiles of United Nations system organizations, harmonized ratings and common approaches for reporting on internal audit results across the system should be actively pursued by the United Nations System Chief Executives Board for Coordination (CEB) High-level Committee on Management (HLCM) in coordination with UN-RIAS.**

B. Strengthening the role of United Nations representatives of internal audit services

257. The mission of United Nations representatives of internal audit services (UN-RIAS) is "to strengthen internal auditing practices and professionalism by providing a forum for development of methodologies and their related innovation, promoting and supporting independence, collaboration and common positions of its members to add value to their organizations." [127]

258. UN-RIAS has undergone some development and evolution in the course of its institutionalization. In 2008, UN-RIAS adopted the first version of its operating mode in which it described its internal procedures. The operating mode was revised in 2010 and has become well established. There are annual meetings, as well as virtual meetings as required to discuss working group topics via video or audio conferences. Decisions are taken on a "one-member-one-vote" basis and the head of internal audit/oversight is the expected delegate in formal meetings. The decision-making process is well outlined and, significantly, compliance with all decisions is voluntary for the organizations concerned.

259. UN-RIAS is active in developing a community of practice. Heads of internal audit/oversight and staff indicated that they appreciated attending the UN-RIAS annual meetings as a way to share good practices and to gain valuable professional development experience particular to the United Nations system. This was especially true for smaller internal audit services.

260. UN-RIAS has a partnership arrangement with the High-level Committee on Management (HLCM) under CEB. The recommendations and decisions that result from the exchange of practices and experience between UN-RIAS and HLCM are not binding for their respective members. UN-RIAS respects the governance structure of each of its participating organizations and remains independent from any involvement in operational matters. UN-RIAS and HLCM are accountable to their own constituencies and do not receive instructions from each other.[128]

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[127] See UN-RIAS, "Operating mode", update adopted on 2 December 2010.

[128] See the CEB website, www.unsceb.org/content/united-nations-representatives-internal-audit-services-un-rias-0.

261. Unlike some of the other professional networks within the United Nations system, UN-RIAS is less formalized and has no dedicated funding. The Inspectors noted that this is in contrast with, for example, the United Nations Evaluation Group, in which voluntary funding is provided by members for a secretariat (hosted by UNDP) to present a platform for communication and discussion among members, operational support for publications and meetings, and technical support for the activities of the evaluation group.[129]

262. Administrative support for UN-RIAS is provided on a rotational basis by the elected Chair and/or vice-Chair, with other members extending support on a case-by-case basis. No figures were available to determine the cost of dedicated staff time; however, those persons interviewed indicated that it was quite substantial with internal audit staff involved in the various working groups of UN-RIAS.

263. **UN-RIAS constitutes an important forum and a means to strengthen and harmonize common audit practices among the United Nations system organizations, particularly in providing support to smaller internal audit services. However, it requires the investment of significant staff time and travel expenses. Executive heads should ensure that funding is made available, based on a business case to justify any additional support, to individual internal audit services to facilitate their full participation in UN-RIAS activities.**

C. Support for inter-agency cooperation and joint auditing

264. Major United Nations system initiatives on working together, such as "Delivering as one", have resulted in the establishment of new modalities for joint programme delivery. With regard to internal audit, a demand has been created to deliver joint audits of the numerous "Delivering as one" programmes, multi-donor trust funds and joint programmes. This work must generally be accommodated from within the regular internal audit budget and workplan.

265. In recognition of the general trend towards joint programme delivery, in 2013, UN-RIAS started developing a single audit framework to guide joint internal audits of all joint activities.[130] The aim was to combine and pool audit resources and efforts to conduct joint audit activities. The UN-RIAS guidance delineates the responsibilities of internal audit services participating in joint audits and provides a basis for harmonizing and coordinating all stages of the internal audit process.

266. Joint audits, as with many cooperative efforts, including, inter alia, those mentioned under "Delivering as one", are difficult or costly to undertake as a single agency effort. A number of organizations with shared programmes have had experience with joint audits. According to the responses to the JIU questionnaire, about 50 per cent of the organizations have done, or plan to do, a joint audit,[131] while 16 internal audit services (73 per cent) indicated that they coordinate work with other assurance providers outside their organization in areas of joint programming, operations or common business processes.

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[129] The UNEG Principles of Working Together (2015) indicated that funding support for UNEG covers the cost of one Professional position and related operational support as well as secretariat services, including website, publication and travel costs.

[130] UN-RIAS (2014): Framework for Joint Internal Audits of United Nations Joint Activities, endorsed September 2014.

[131] Internal audit services that have carried out joint audits, or plan to do so, are FAO, UNOPS, UNFPA, WFP, UNICEF, UNIDO, UNDP, WHO, UNESCO, UNHCR and the United Nations Secretariat.

267. A good practice is the collaboration between UN-RIAS and the UNDG Joint Funding Task Team, which analyses multifaceted issues (e.g. legal, operational, strategic, etc.) related to the funding of joint programmes. The work of this task team is used to determine the audit universe of joint activities, which is estimated to encompass some USD 1.6 billion. UN-RIAS participating organizations are only able to conduct up to three joint audits per year and, while individual agency contributions are regularly audited by their respective internal audit services, it is likely that there is an insufficient degree of coverage of the joint elements of these activities.

268. There exist a number of practical problems relating to delivery of and payment for these joint audits. Joint audits require significant research, communication and coordination among the internal audit services participating in them to overcome the differences in systems and processes. This generally requires the development of specific audit approaches geared to the joint activity under review, and can add greatly to the complexity of the audit process and the time required to complete the work.

269. There may also be significant consensus-building requirements for joint audits. One barrier noted, from the JIU interviews, was the inability, in some cases, to obtain approval for auditors on the joint audit team to review activities or transactions of another organization. This had the effect of rendering the joint audits as simply high-level reviews of internal control structures, without the ability to test transactions to provide assurance on the effectiveness of the operation of those controls, or to delve into complex governance issues across organizations.

270. In general, joint audits are funded from the regular resources of internal audit services, which means that joint audit activities compete with the internal audit activities of the organizations. As a result, they may not be given the necessary priority, based on their risk profile in the United Nations system as a whole.

271. Another major challenge is the lack of a unifying governance structure and a central support framework for joint audits. The establishment of a joint audit universe and regular assessment of it in a risk-based manner requires consistent effort, which is currently carried out on a voluntary basis by UNFPA and supported by other UN-RIAS members. Internal audit services across the United Nations system have been trying to do without any dedicated resources for joint audits for a long time. This constitutes a significant hurdle for internal audit services to participate in joint audits without appropriate support.

272. **While there has been increasing cooperation and collaboration among United Nations system organizations in terms of delivering their mandates, there remain important challenges to resolve in terms of institutionalizing common approaches and the availability of joint audits to respond adequately to the drive for inter-agency cooperation. Securing adequate funding for joint audits is a major challenge as there is no additional budget source for joint audits outside of the regular internal audit budgets. Executive heads should ensure that internal audit services have sufficient resources and support to effectively carry out joint audits in support of inter-agency cooperation and joint programme initiatives.**

IX. THE WAY FORWARD: FUTURE OUTLOOK AND OPPORTUNITIES

273. United Nations system organizations are increasingly under pressure to demonstrate stewardship of resources to member States and accountability for funding entrusted by donors. The internal audit function in the United Nations system organizations provides a critical and increasingly strategic source of assurance on oversight matters in this regard. Its high-level placement, the fact that it reports directly to the executive heads with reporting links to the governing bodies, and its entity-wide mandate, position the internal audit function well to play a central role in United Nations oversight activities.

274. In addition to this review, over the past 10 years, two JIU reports[132] have also examined the progress made towards strengthening and maturing the internal audit function in the United Nations system. Good results have been demonstrated in this report through the increased professionalization of the internal audit function, a growing appreciation of the value of the function to its stakeholders, and the widespread evolution of oversight committees in support of the internal audit function.

275. While there is a solid base on which to build, the JIU reviews have highlighted areas that still require attention by executive heads and governing bodies in order to improve the effectiveness of the internal audit function across the United Nations system. These will need to be addressed. In particular, without a firm commitment to strengthen the internal audit function in its role of providing oversight to governing bodies and executive heads, while maintaining its independence, its full benefits will not be realized. A targeted further investment of resources in IT and professional training to more effectively deliver comprehensive assurance and more strategic performance auditing services is also needed. On the other hand, internal audit services need to continue to improve their services by providing strategic value to the complex environment of the United Nations system. This should include paying particular attention in their support to management's second line of defence, including the development of strong enterprise risk management, results-based management and internal control frameworks.

276. Internal audit services and the oversight committees that support them are recognized as essential components of the oversight function in the United Nations system. Internal audit, in particular, has matured over the last 10 years and has demonstrated its value to executive heads. It can potentially contribute even more by strengthening its relationship with governing bodies via the oversight committees and through assurance and advisory work that supports management in the strengthening of key elements of its second line of defence. Furthermore, governing bodies and executive heads need to ensure that the resources dedicated to internal audit are sufficient to provide the necessary level of assurance for the risk profile of the organization.

Professionalization

277. All United Nations system organizations should be served by a professionally qualified internal audit function. Such professionalism is most effectively demonstrated and ensured by having professionally certified internal audit staff, adopting the IIA Standards, and passing a mandated external quality assessment. While much progress has been made, there is still work to be done, particularly in the smaller organizations, to achieve this latter benchmark. Passing external quality assessments provides a basis to communicate strategically with external stakeholders and donors on the professionalism of the United Nations system internal audit function. Ensuring that the internal audit function achieves and maintains this important professional qualification, along with the professional certification of internal audit staff, should be a priority of governing bodies and executive heads.

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[132] JIU/REP/2010/5 and JIU/REP/2006/2.

Independence

278. In the United Nations system, while governing bodies are primarily served by external auditors, internal audit, in general, provides a service that is internally focused and geared more towards meeting the needs of the executive heads. However, a key requirement of a professional internal audit function is its ability to establish and maintain its independence through interaction with the governing body directly and via the oversight committee, as well as the executive head of the organization it serves.

279. In the United Nations system, internal audit reporting lines are clear and well established with executive heads, as indicated in this and previous JIU reports. However, there is still work to be done to better institutionalize the relationship between internal audit and governing bodies. Governing bodies reported significantly less overall satisfaction with internal audit than did executive heads. The lack of a well-defined relationship between the governing body and internal audit, via the oversight committee as an advisory body, may have potentially serious ramifications for internal audit functioning and independence.

280. The reporting standards of internal audit to governing bodies need to be sufficient to ensure the independence of the function and to provide a summary level of reporting, while still preserving the ability of the function to provide open and frank advice to executive heads. This is a delicate, but not impossible, balance to strike for the professional internal audit services of the United Nations system.

Harmonization

281. UN-RIAS provides a forum with the potential to harmonize and improve internal audit practices across participating organizations. As a professional network, UN-RIAS gives strength to the function system-wide by providing a platform to discuss and propose solutions to common issues as well as useful normative guidance. Its value has been demonstrated with respect to the determination and coordination of joint auditing efforts. It is also proving useful in developing a common approach to audit ratings to support the harmonization of audit reporting, which is particularly beneficial in cases where public disclosure of internal audit reporting has been chosen.

282. Moving forward, further institutionalization of UN-RIAS, as suggested in the present report, would allow it to assume a greater coordination and support role to achieve further professionalization of internal audit in the United Nations system. Funding should be made available to individual internal audit services to allow their full participation in UN-RIAS activities, on the basis of a business case.

Responsiveness

283. Internal audit services in public sector organizations serve multiple stakeholders, all of which have differing needs for information. Member States and donors, in their appetite for information on accountability, have increasingly demanded public access to internal audit reports. While this enables access to a great deal of information on accountability, the level of reporting is likely to be too detailed and voluminous to be easily digested and used effectively. More importantly, many stakeholders feel that public disclosure of internal audit reports dilutes the ability of the internal auditors to be frank and open with their findings.

284. While the established practice of presenting annual reports on the results of internal audit work supports the objective of providing information on accountability to external audiences, all individual internal audit reports should be made available to governing bodies upon request, so that they can examine areas of particular interest in an in-depth manner. However, the details

pertaining to each individual audit report are generally best left to the executive head and senior management to address.

285. Public disclosure of internal audit results is an issue for governing bodies and executive heads to work through in order to determine the best solution for their specific situation and the needs of stakeholders. Organizations that have adopted public disclosure of their reports may wish to consider evaluating this practice to determine its effectiveness and utility in providing member States, donors and other audiences with the information they need. JIU intends to contribute to deliberations on this matter by undertaking a review on donor oversight in the United Nations system, as part of its programme of work in 2016.

Evolution

286. As indicated in the present report, internal audit should play a key role in the future in assisting management to strengthen its second line of defence. Over the last few years, the majority of United Nations organizations have invested a significant amount of resources in improving performance management, internal control frameworks and risk management functions. While efforts to date are promising in general, the second line of defence is not yet sufficiently mature to be relied upon as a fully functioning management oversight mechanism.

287. A core deliverable of internal audit is the provision of assurance on compliance with the rules and regulations that govern operational, administrative and financial processes. This is particularly crucial for organizations with large, decentralized operations. Some of the most mature internal audit services in the United Nations system have developed sophisticated auditing programmes designed to test the compliance and performance of decentralized operations which enable them to report holistically on the results. With the implementation of major new ERP systems, like UMOJA, investment in automating routine auditing processes, where applicable, could greatly expand the functionality and scope of internal audit compliance work. Ideally this work should eventually be transferred to management to strengthen its second line of defence.

288. As internal audit has matured and compliance auditing has become routine, making it less work-intensive, there has been a move to providing more strategic services, including performance audits and advisory engagements. While management generally appreciates these services, they require a higher-level skill set among internal audit staff than the traditional controls-based compliance audits. Next to IT skills, performance auditing capability is the skill set most required by heads of internal audit/oversight to move the function to a more strategic level.

289. Although internal audit has an established base of financial resources, there are strong perceptions from stakeholders that the function is often underfunded to meet its objectives. With the addition of minimal, but targeted, resources to enhance IT audit capabilities and to provide advanced training in performance auditing, executive heads and governing bodies would see a great return on their investment. Internal auditors with advanced skill sets are required to take on the increasingly complex task of providing organizations with a comprehensive level of assurance and, particularly, to assist in the coordination of results across oversight providers.

Oversight committees

290. As the hard work of establishing oversight committees has already been undertaken in most United Nations system organizations, in the present report, JIU has made observations on how to better anchor the committees in the oversight architecture of the United Nations system by strengthening their role of providing advice to governing bodies and executive heads. As oversight committees continue to mature, they will be able to assist executive heads and governing bodies to better understand and utilize the multiple oversight mechanisms, both internal and external to the organization, that are available to them. In this regard, the annual report of the oversight committee can be a key source of information on gaps and duplications, as well as on the overall effectiveness of oversight processes, including the internal audit function.

291. A key consideration for the future will be to pay attention to the increasing demands placed on oversight committees. In a similar fashion to internal audit, oversight committees are well placed to serve the needs of executive heads, but their ability to provide value to governing bodies is currently less well developed. By forging closer reporting lines to governing bodies, oversight committees will have the ability to strengthen all oversight functions, including internal audit.

ANNEX I: CHARACTERISTICS OF INTERNAL AUDIT SERVICES IN UNITED NATIONS SYSTEM ORGANIZATIONS

	Internal Audit Services		Head of Internal Audit/Oversight[a]		Oversight Committee	
	Title	Grouping	Title	Gender	Title	Established
FAO	Office of Inspector General - Internal Audit Unit	Audit/ Investigation/ Inspection	Inspector General	M	Audit Committee (AC)	2003
IAEA	Office of Internal Oversight Services	Audit/ Evaluation	Director	M	--	N/A
ICAO	Evaluation and Internal Audit Office	Audit/ Evaluation/ Investigation	Chief, Evaluation and Internal Audit Office	M	Evaluation and Audit Advisory Committee (EAAC)	2008
ILO	Office of Internal Audit and Oversight	Audit/ Inspection/ Investigation	Chief Internal Auditor	M	Independent Oversight Advisory Committee (IOAC)	2007
IMO	Internal Oversight and Ethics Office	Audit/ Evaluation/Ethics/ Investigation	Senior Deputy Director	M	--	N/A
ITU	Internal Audit Unit	Audit/ Investigation/ Inspection	Head of Unit	M	Independent Management Advisory Committee (IMAC)	N/A
United Nations Secretariat	Office of Internal Oversight Services (OIOS)	Audit/ Evaluation/ Inspection/ Investigation	Under-Secretary General for OIOS	F	Independent Audit Advisory Committee (IAAC)	2005
UNDP	Office of Audit and Investigations	Audit/ Investigation	Director	M	Audit Advisory Committee (AAC)	2006
UNESCO	Internal Oversight Services	Audit / Evaluation/ Investigation	Director	F	Oversight Advisory Committee (OAC)	2002
UNICEF	Office of Internal Audit	Audit/ Investigation	Director	M[b]	Audit Advisory Committee (AAC)	2006
UNIDO	Office of Internal Oversight and Ethics (IOE)	Audit/ Investigation/ Inspection/Ethics	Director, IOE	M	--	N/A

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[a] This position is also commonly referred to as "Chief Audit Executive". It is the position directly responsible and accountable for internal audit activities and adherence to professional standards.

[b] Filled in January 2016.

	Internal Audit Services		Head of Internal Audit/Oversight[a]		Oversight Committee	
	Title	Grouping	Title	Gender	Title	Established
UNFPA	Office of Audit and Investigation Services	Audit/ Investigation	Director	F	Audit Advisory Committee (AAC)	2002
UNHCR	Office of Internal Oversight Services (OIOS), United Nations Secretariat	Audit	Under-Secretary-General	M	Independent Audit and Oversight Committee (IAOC) of UNHCR	2011
UNRWA	Department of Internal Oversight Services	Audit/ Ethics	Director of the Department	M	Advisory Committee on Internal Oversight (ACIO)	2007
UNOPS	Internal Audit and Investigations group	Audit/ Investigation	Director	M	Audit Advisory Committee (AAC)	2005
UPU	Internal Audit	Audit/ Investigation	N/A	N/A	Internal Audit Committee (IAC)	2005
WFP	Office of Inspector General	Audit/ Investigation/ Inspection	Inspector General	M	Audit Committee (AC)	2004
WHO	Office of Internal Oversight Services	Audit/ Investigation	Director	M	Independent Expert Oversight Advisory Committee (IEOAC)	2009
WIPO	Internal Oversight Division	Audit/ Evaluation/Investigation	Director	M	Independent Advisory Oversight Committee (IAOC)	2006
WMO	Internal Oversight Office	Audit/ Evaluation/ Inspection/ Investigation	Director	M	Audit Committee (AC)	2003
UN-WOMEN	(serviced by UNDP Office of Audit and Investigations)	N/A	N/A	N/A	Audit Advisory Committee (AAC)	2012
UNAIDS	(serviced by WHO Office of Internal Oversight Services)	N/A	Director (WHO)	M	(Serviced by WHO Audit Advisory Committee)	N/A

ANNEX II: STATUS OF IMPLEMENTATION OF SELECTED RECOMMENDATIONS IN JIU/REP/2010/5

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
Recommendation 1: The internal audit/oversight head should review, at least every three years, the content of the internal audit charter and financial rules and regulations pertaining to internal audit for compliance with the International Standards for the Professional Practice of Internal Auditing and present the results of such a review to the executive head and the oversight/audit committee, and any proposed change should be submitted to the legislative/ governing body for approval, in order to enhance the independence, role, status and functional effectiveness of the audit function.		Organizations of the United Nations system concurred with recommendation 1, calling for a review of the internal audit charter and the financial rules and regulations that pertain to the internal audit function. Furthermore, agencies suggested that any review of the financial rules and regulations should take place in a harmonized manner among agencies across the United Nations system. (para. 6, p. 4)	• Implemented by 18 out of 20 applicable organizations (WBTS) • All 22 internal audit services in United Nations organizations have internal audit charters that sets out the purpose, authority, independence and objectivity, organization, responsibility, and professional standards for the internal audit function according to IIA requirements

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[a] See JIU/REP/2010/5, statistics based on review of 20 internal audit services.

[b] See A/66/73/Add.1 of 23 September 2011.

[c] Source: JIU web-based tracking system (WBTS) and responses to the 2015 questionnaire and surveys.

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
Recommendation 2: The internal audit/oversight heads at the United Nations organizations should confirm the independence of the internal audit function annually to the audit/ oversight committee, which should report to the legislative/governing body on any threat to or interference with the independence of the internal audit activity and suggest remedial measures, so as to enhance its effectiveness.	• "[…] the Inspectors identified a number of threats to the independence and objectivity at the individual auditor, engagement, functional and organizational levels and found that the internal audit function at the UN organizations enjoys different degrees of functional and operational independence […]" (para. 35, p. 9) • 52.4 per cent of UN system organizations reported that there was no impairment or interference in the independence/objectivity. (figure 2, p. 9) • 19 per cent of UN system organizations reported that there was interference in accessing to records, personnel or assets. (see figure 2, p. 9)	Agencies supported recommendation 2 of the report, calling on internal audit/ oversight heads to confirm the independence of the internal audit function to the audit/ oversight committee. (para. 7, p. 4)	• Implemented by 17 out of 20 applicable organizations (WBTS) • All 22 internal audit charters grant access to all information, people and resources necessary for the conduct of internal audit work • In 20 internal audit services, the head of internal audits/ oversight provided an annual attestation as to the independence of internal audit • 22 internal audit charters provided full independence, power and authority to determine the scope of internal audit work, perform work and communicate results without restriction
Recommendation 3: The legislative/governing bodies should direct the executive heads of the United Nations system organizations concerned to facilitate the submission of the internal audit planning and audit results to the audit/oversight committees, where appropriate, for the latter's review.	• "[…] the Inspectors reiterate recommendation 11 of the Oversight Lacunae Report that: the legislative bodies in each organization should direct their respective executive heads to ensure that annual internal oversight summary reports are submitted to the audit/oversight committee for its review, with the comments of the executive head submitted separately." (para. 46, p. 11) • "[…] oversight committees review the audit plans in 56 per cent of organizations." (para. 40, p. 10)	Agencies supported recommendation 3 of the report. (para. 8, p. 4)	• Implemented by 18 out of 20 applicable organizations (WBTS) • 33 per cent of oversight committee member respondents to the JIU survey were fully satisfied with the overall level of assurance provided by the internal audit plan
Recommendation 4: The executive heads of United Nations organizations should ensure that audit staff are selected in accordance with staff regulations and rules, based on audit qualifications and experience as the main selection criteria. These staff should be selected	• "Cases of interference in the staff selection process in at least three organizations were brought to [the Inspectors'] attention." (para. 54. p. 13) • "[…] there is also a risk that with no oversight over recruitment decisions, appointments may be made that are not in line with organizational human resources policies." (para. 54. p. 13)	Organizations of the United Nations system generally supported the principles contained in recommendation 4, concerning the selection of staff members of audit departments. However, with	• Implemented by 17 out of 19 applicable organizations (WBTS)

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
independently from management and administrative influence, so as to ensure fairness and transparency, increased effectiveness and independence of the internal audit function.		regard to ensuring fairness, transparency and effectiveness, as well as adherence to other relevant policies of the organization, agencies suggested that audit recruitment, transfer and promotion actions should be subject to the same controls used to achieve the objectives for all other staff members. Agencies therefore suggested that the focus should be on ensuring the effectiveness of those controls rather than creating special arrangements for certain categories of staff. The controls should be designed with due regard for selection of auditors and other categories of staff in functions that are independent of the rest of the organization. (para. 9, p. 4)	

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
Recommendation 5: The internal audit/oversight heads should ensure that recruited staff possess audit or other relevant experience as well as professional certification in audit or accounting at entry level/ promotion, in line with best practices.	• "[…] the review found that only 57 per cent of the organizations required the internal auditors to have one of the above professional certifications, while it was encouraged in almost all (93 per cent). In practice, 16 of the organizations reviewed reported that 75 per cent of the audit professional staff possess at least one of these qualifications." (para. 63, p. 15) • "[…] at least 5 per cent of the annual audit budget is dedicated to audit training/continuing development at only 38 per cent of the organizations […]" (para. 64, p. 16)	Agencies supported recommendation 5 regarding experience and certification of staff members within the internal audit and oversight bodies. However, agencies suggested that other certifications, besides accounting, should also be relevant. They noted that while professional audit certifications such as Certified Internal Auditor or Certified Information System Auditor would be a distinct advantage in recruitments and promotions, they should not be a prerequisite, and the internal audit/oversight head should encourage all audit staff members who had not already done so to obtain one or more such certifications. Furthermore, agencies noted that best practices in the internal audit profession also stated that internal audit	• Implemented by 17 out of 20 applicable organizations (WBTS) • In 16 of the 22 internal audit services, at least 50 per cent of staff members had a professional certification in internal audit • 59 per cent of internal audit services reported that their current training budgets were sufficient

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
		functions should also utilize in-house skills that are not necessarily audit/ accountancy-based. (para 10, p. 5)	
Recommendation 6: The audit/ oversight committees should, as appropriate, review the risk-based needs and planning process of the internal audit and provide guidance on how to improve it.	• "[…] many United Nations organizations are still in the preliminary stages of ERM, either preparing policy and framework documents or undertaking pilot/first phase exercises." (para. 72, p. 17) • "In preparing the audit plan, most of the organizations surveyed reported that they take into account the existing or in-progress ERM frameworks according to their degree of maturity […]" (para. 72, p. 17) • About half of the organizations nevertheless reported that they had not implemented an audit cycle by level of risk or that the audit cycle was not adequate to ensure an acceptable level of risk." (para. 73, p. 17) • "[…] it was indicated that audits were mostly based on inherent risk rather than residual risk." (para. 74, p. 17)	Agencies agreed with recommendation 6, suggesting that audit/oversight committees should review and guide improvements to the internal audit planning process. (para. 11, p. 5)	• Implemented by 14 out of 15 applicable organizations (WBTS) • 7 of the 22 (41 per cent) considered their organizations ERM frameworks in the development of their internal audit plan • All 22 organizations had formal risk based internal audit planning processes • During interviews, senior managers often indicated that they did not understand how internal audit formulated its risk assessment
Recommendation 7: To enhance efficiency, the legislative / governing bodies at the organizations concerned should direct executive heads to review audit staffing and the budget prepared by the internal audit/oversight head, taking into consideration the views of the audit/oversight committees, where appropriate, and should suggest to the executive	• "Since 2006, audit resources have been boosted at 12 organizations […]" (para. 79, p. 18) • "Many internal audit heads expressed to the Inspectors general satisfaction with the level of resources available to perform the audit activity; 40 per cent, however, indicated that the issue of resources is a significant challenge/constraint presently faced by the internal audit function at ICAO, ILO, IMO, UNIDO, UNRWA, UPU, WIPO and WMO." (para. 81, p. 19) • When applying the JIU formula, 70 per cent of the organizations are below range in terms of number of internal auditors (see table 1, p. 19)	Organizations of the United Nations system supported recommendation 7, calling on legislative/governing bodies to direct executive heads to ensure that the audit function is adequately resourced to implement the audit plan. (para. 12, p. 5)	• Implemented by all 8 applicable organizations (WBTS) • Survey result shows 32 per cent of heads of internal audit were fully satisfied with the sufficiency of the internal audit resources • See annex V (A and B) for details on internal audit budget and staffing for 2015

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
heads an appropriate course of action, to ensure that the audit function is adequately resourced to implement the audit plan.			
Recommendation 8: To enhance accountability and transparency, the legislative/ governing bodies concerned should require the internal audit/oversight head to submit to them, annually in writing, his or her report on the results of the audit activity and to publish such annual reports on the organizations' websites. The annual reports should refer to the implementation of the audit plan, major risks, the audit ranking of the audited entities, governance and control issues, key findings, recommendations and implementation of prior outstanding recommendations, as well as to any independence, resources or other issues that impact negatively on the effectiveness of the audit activity.	• "[…] reporting is done either orally or in writing at least annually […], excluding at the ILO and the United Nations, where no oral reporting to the executive head is done." (para. 90, p. 22) • "An annual summary report is presented to the legislative/ governing bodies directly or through the executive head in most organizations, except at IAEA, UNIDO and UNRWA." (para. 90, p. 22) • 14 internal audit reports covered independence issues (see figure 4, p. 23)	Agencies supported recommendation 8 of the Joint Inspection Unit report. (para. 13, p. 5)	• Implemented by 2 out of 3 applicable organizations (WBTS) • 45 per cent of internal audit services did not include an explicit statement of independence in their annual report • All 22 internal audit services prepared annual or summary reports on its activities and the results of the execution of the internal audit plan of work
Recommendation 9: Senior management and internal audit/ oversight heads should, as appropriate, improve their systems to follow up the implementation of audit	• 4.8 per cent of internal audit services did not have an electronic follow-up database/system for internal audit recommendations; 28.6 per cent had an internal IT application/database; 28.6 per cent had an on-line system; 38.1 per cent used Excel or equivalent spreadsheet (see figure 5, p. 24)	Agencies agreed with recommendation 9, and several organizations indicated that they had experienced improvements in	• Implemented by 16 out of 19 applicable organizations (WBTS) • All 22 of the internal audit reported that they had an established follow-up process which required management to report on the status of internal audit recommendations • All 22 internal audit services validated the

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
recommendations in line with best practices including electronic tracking, monitoring, reporting to executive heads or a management committee at least biannually and to governing/ legislative bodies annually, and disclosure of non-implemented high-risk audit recommendations. For the same reason, senior management should ensure timely provision of information on the status of implementation of recommendations to the internal audit/oversight heads. Necessary resources should be allocated to strengthen/ establish the system or approval should be sought from legislative/governing bodies to that end.	• Details on monitoring of the implementation of audit recommendations (see figure 6, p. 24)	follow-up to audit recommendations after implementing computer-based systems for that purpose. (para. 14, p. 6)	implementation of completed management action plan • In 14 out of 22 organizations, management took responsibility for tracking its own responses centrally for all oversight recommendations including those from internal audit, external audit and JIU
Recommendation 10: To ensure transparency and accountability, the legislative/ governing bodies at the United Nations system organizations concerned should ensure that internal audit is subject to independent external quality assessment or self-assessment with external independent validation in line with the Institute of	• ICAO, IMO, ITU and UPU did not have a formal quality assurance and improvement programme in place (para. 102, p. 26) • The audit activity at United Nations organizations was in general conformity in 10 organizations, and in partial conformity in six organizations (see para. 106, p. 27)	Agencies of the United Nations system supported recommendation 10, calling for independent quality assessments of internal audit functions. (para. 15, p. 6)	• Implemented by 4 out of 5 applicable organizations (WBTS) • To date, 18 out of 22 internal audit services (82 per cent) have completed at least one external quality assessment and the majority of these received a passing grade • The audit activity at United Nations organizations was in general conformity in 15 organizations, and in partial conformity in 2 organizations

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
Internal Auditors (IIA) standards every five years and should ascertain that corrective action is taken to bring the internal audit activity into general conformity with IIA standards.			
Recommendation 15: To enhance accountability, controls and compliance, the legislative bodies should revise the mandates of audit/oversight committees to include the review of both internal and external auditors' performance as well as other responsibilities, including governance and risk management.	• Just below 90 per cent of the oversight committees had a role in reviewing the adequacy of the internal audit processes (see figure 12, p. 46) • About 75 per cent of the oversight committees had a role in reviewing the charter of the oversight committee periodically (see figure 12, p. 46) • Half of the oversight committees had a role in reviewing the adequacy of the external audit processes (see figure 12, p. 46)	As with earlier recommendations, agencies did not comment on the content of recommendation 15, noting that the mandates of audit/oversight committees fell under the purview of legislative/governing bodies. (para. 20, p. 7)	• Implemented by 11 out of 14 applicable organizations (WBTS) • 94 per cent of the oversight committees had a role in the internal audit plan • 100 per cent of the oversight committees had a role in the internal audit budget and resources
Recommendation 16: The legislative bodies should require that the charter of the audit/ oversight committees be reviewed regularly, at least every three years, and any change be submitted for the approval of the legislative bodies.	• "[…] the charters/terms of reference of audit/oversight committees are solely approved by the executive head at UPU, UNHCR, UNICEF, UNFPA and UNDP." (para. 189, p. 48)	Agencies agreed that the charter of audit and oversight bodies should be reviewed on a regular basis. In some organizations those bodies are established by the executive head, who therefore assumes responsibility for any review of the mandates and charters of the audit/oversight bodies. (para. 21, p.	• Implemented by 14 out of 15 applicable organizations (WBTS) • The charters/terms of reference of audit/oversight committees are solely approved by the executive head at UNICEF and UNFPA • 78 per cent of the oversight committees had a role in reviewing the audit charter • 72 per cent of internal audit services had the governing body/legislative body approve the oversight committee charter

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
		7)	
Recommendation 17: The legislative/governing bodies should elect/ appoint the audit/oversight committee members, the number of whom should vary between five and seven members with due regard to professional competency, geographical distribution and gender balance so as to represent the governing bodies' collective interests. The candidates should be screened by a committee, unless the audit/oversight committee is a subcommittee of the legislative/ governing bodies, to ensure compliance with the said requirements, including independence before their appointment.	• 2 out of 14 committees (UNESCO, UPU) had less than 5 members (see figure 13, p. 49) • The average number of members of the oversight committees was 5.5 (see figure 13, p. 49) • "Appointments are mostly approved by the executive heads of legislative/governing bodies." (para. 193, p. 49)	Agencies responded to recommendation 17 by suggesting that the proposed arrangement might needlessly complicate the process. Agencies reported success using a system whereby the executive head appoints members of the committees, with the approval of the governing bodies, thereby creating a team of external experts with complementary professional experience and expertise across geographical regions. Furthermore, agencies noted that while the recommendation encouraged that oversight committee members be appointed by the governing bodies, they stressed that oversight committees were not political bodies and should	• Implemented by 13 out of 15 applicable organizations (WBTS) • 10 internal audit services, legislative/governing bodies were responsible for approving the appointment of audit/oversight committee members • In 13 out of 18 oversight committees, there was a formal defined recruitment policy or process for committee members

JIU recommendations (2010)	Excerpts from 2010 JIU report[a]	CEB comments[b]	Status of implementation in 2015[c]
		therefore consist of oversight experts who are external to and independent of the organization. (para. 22, p. 7)	
Recommendation 18: To ensure transparency and disseminate best practices, the Chair of the audit/ oversight committee should submit at least one annual report directly to legislative/governing bodies with separate comments by executive heads, if any, which should be published on the website of the organization, in line with best practices.	• "[…] most audit committees at the United Nations organizations report to the legislative/governing bodies through the executive heads; such is the case at FAO, ILO, UNESCO, UNFPA, UNICEF, UNOPS and UNHCR." (para. 202, p. 51) • The ILO, the United Nations, UNDP, UNFPA, UNICEF, WMO and WIPO publish reports on website of the organization" (see para. 203, p. 51)	Agencies agreed that the Chairs of audit and oversight committees should submit at least one annual report directly to the legislative/governing bodies, along with the other terms contained in recommendation 18. (para. 23, p. 8)	• Implemented by 13 out of 14 applicable organizations (WBTS) • All 18 oversight committees were required by their charter or practice to give an annual report to the governing body/ legislative body/ executive board on internal audit

ANNEX III: METHODOLOGY AND DATA COLLECTION INSTRUMENTS

The methodological elements and data collection instruments of the present review were as follows:

A. Desk review

Information, available in print or published on the Internet, on internal audit and its stakeholders was gathered and analysed. This included professional standards, benchmarks, assessment tools and studies by the Institute of Internal Auditors (IIA) and other professional bodies; the websites of participating organization; internal audit and oversight committee charters; governance and organizational structures; planning and budgetary documents; reports of internal audit, oversight committees and other stakeholders on oversight matters; and previous reviews by JIU and other public/private sector entities.

B. Corporate questionnaire

Factual information was collected through a questionnaire sent to each participating organization for a single corporate response. This information was necessary for assessing the internal audit services of the United Nations system organizations. The information also provided a basis of statistical data pertaining to the internal audit services. Responses were received from all 22 organizations with internal audit services, which provided a 100 per cent response rate.

C. Perception surveys

To complement the factual information obtained from the responses to the questionnaire, JIU issued surveys to seven groups of key stakeholders in order to collect their perceptions and views on internal audit. The seven groups were:

- *Executive heads*: to obtain their views as a key stakeholder and the primary recipient of internal audit services;
- *Governing body*[a] *members*: as a key client of internal audit functions who may rely on the work of internal audit to gain assurance about the effectiveness of the organization;
- *Heads of internal audit/oversight*:[b] as the functional managers responsible for the delivery of internal audit services;
- *Internal audit staff*: to understand their views of the strengths and challenges of internal audit within their respective United Nations system organizations;
- *Senior managers*:[c] as clients of internal audit who have regular and direct interaction with internal audit during the audit process;
- *Oversight committee members*: owing to their subject matter expertise and their role in advising executive heads and governing bodies on the effectiveness of internal audit;
- *External auditors*: for their perceptions of the role, effectiveness and added value of the internal audit function as professional peers to internal audit.

The response rates to the perception surveys were good overall. See table below for details.

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[a] This term will be used throughout the report to refer to the highest level member State body.

[b] This term will be used throughout the report to refer to the "chief audit executive" as per the IIA Standards. Within the United Nations system, different titles are used (see annex I for details).

[c] For the purpose of this survey, a list of representative senior management functions together with senior leadership representatives was identified and the survey shared with the respective incumbents.

Response rates and number of interviews by stakeholder category

	Survey responses (number)	Survey response rate (per cent)	Interviews (number)
Executive heads	11	42	9
Governing body members	173	17	7
Heads of internal audit/oversight	18	81	15
Internal audit staff	159	52	18
Oversight committee members	54	67	7
Senior managers	246	58	27
External auditors	35	85	4

Source: JIU 2015 compilation

For the review, it was necessary and helpful to aggregate the data from the perception surveys to present the results system-wide. However, because of the huge differences in size of the organizations, the responses in certain survey groups would have been predominantly reflective of those organizations with a large number of respondents. This was the case for surveys in which participation was relative to organizational size, that is, for internal audit staff, senior managers and to some extent oversight committee members. In order to mitigate discrepancies, the results of the surveys of these three stakeholder groups were adjusted so that the response of each participating organization was weighted equally.[d]

Adjusted survey results for internal audit staff, senior managers and oversight committee members have been consistently used throughout the report, while the survey results used for executive heads, heads of internal audit/oversight, governing body members and external auditors have not been adjusted.

Good response rates are crucial to ensure the validity, reliability and generalizability of survey findings. One of the limitations of the data presented in this review is the uneven number of responses across the categories and organizations. For example, while the surveys had a very high response rate for heads of internal audit/oversight, the response rate of governing body members was comparatively low. As indicated above, the need to weigh the responses in some surveys meant that the few respondents in smaller organizations were given equal weight as the larger number of respondents in other organizations.

Another limitation of the perception data was that some surveys (internal audit staff, executive heads, senior managers and governing body members) were administered centrally by JIU focal points in each organization. For several organizations, JIU did not receive the final number to which the surveys were distributed (survey population) and could not verify how cases of non-respondents (i.e. bounced emails, out-of-office messages, follow-up inquiries from the survey population) were treated.

To mitigate these limitations, the survey results were triangulated against interviews, document reviews and the desk review to ensure the robustness of the findings and conclusions.

D. Interviews and missions

To triangulate the corporate questionnaire and the perception survey data, additional information was collected in individual or focus group interviews. The interviews were either conducted in person, by videoconference or by telephone. A total of 87 interviews were conducted across all seven groups of key stakeholders, as well as with external comparator organizations. The interviews with participating organizations enabled the Inspectors to explore issues raised in the surveys and corporate questionnaire in more depth and to ask follow-up questions. The interviews also provided the opportunity to compare practices from other international organizations and national governments. The following organizations received the Inspectors for interviews (listed by location):

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[d] For each question the average response was calculated across each organization. Responses of the 22 organizations were then averaged to give the overall United Nations system rating, with each organization receiving equal weight regardless of their relative size and response rate.

- Geneva (WHO, WIPO, ILO, WMO, ITU)
- New York (United Nations Secretariat, UNDP, UNICEF, UNFPA, UN-Women)
- Washington D.C. (World Bank, IMF, PAHO)
- Montreal (ICAO)
- Ottawa (Government of Canada: Treasury Board of Canada Secretariat, Office of the Auditor General of Canada)
- Paris (UNESCO, OECD)
- Brussels (European Commission, NATO)
- Rome (WFP, FAO, IFAD)
- Vienna (UNODC, UNIDO, IAEA, OSCE)
- Manila (Asian Development Bank)
- London (IMO, Government of the United Kingdom of Great Britain and Northern Ireland: Her Majesty's Treasury)
- Amman (UNRWA).

E. Formal document analysis

Checklists were developed to ensure a systematic review of key documents from participating organizations. The documents reviewed against these checklists included internal audit charters, oversight committee charters, internal audit annual reports, oversight committee annual reports, internal audit strategies and risk-based audit plans. The checklists were developed based on the international standards for internal audit as developed by the Institute of Internal Auditors (IIA). Results of the formal document analysis have been referenced throughout the report to support findings.

F. Quality assurance

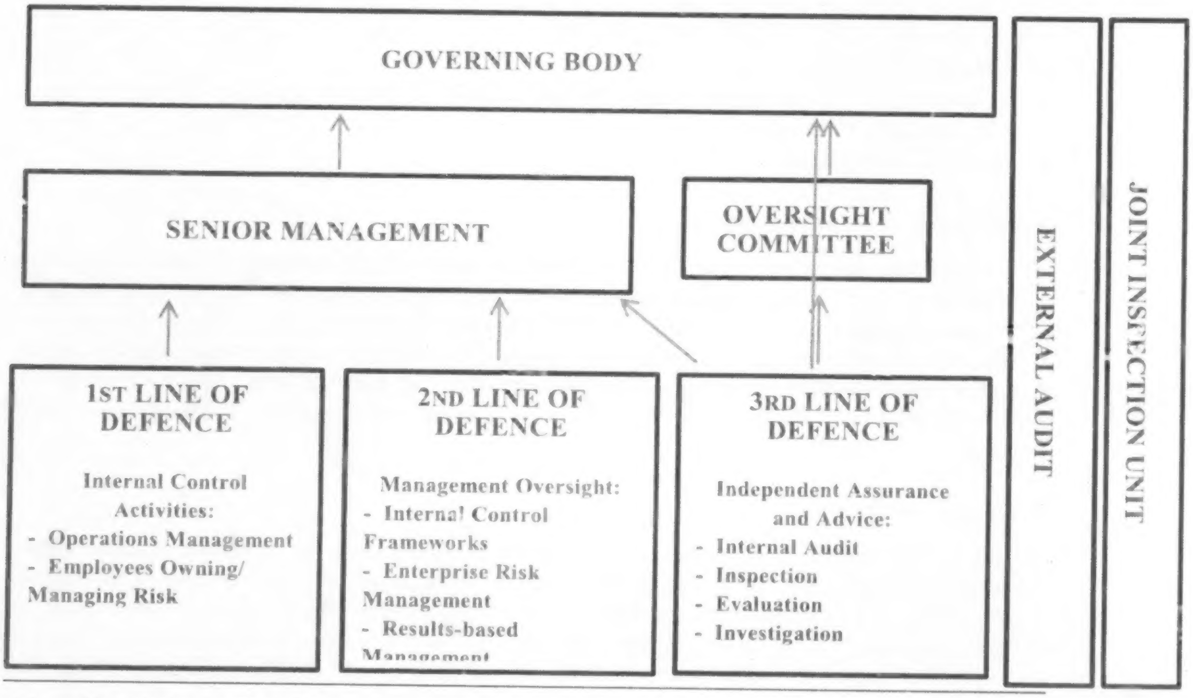
To the extent possible, materials relating to the review (terms of reference, questionnaire, surveys, preliminary findings and recommendations) were shared at various stages of the review with a group of key stakeholders (within JIU and with Geneva-based UN-RIAS members) for validation and comments. In September 2015, the Inspectors presented preliminary information on the data collected and initial findings at the annual meeting of UN-RIAS, held in Manila, for feedback and comments.

In accordance with article 11.2 of the JIU statute, the present report was finalized after consultation among the Inspectors with a view to testing its conclusions and recommendations against the collective wisdom of the Unit. A draft version of the report was shared with the participating organizations for correction of factual errors and for their comments on the findings, conclusions and recommendations.

ANNEX IV: THE THREE LINES OF DEFENCE IN THE UNITED NATIONS SYSTEM

The three lines of defence can be described as follows:

- *First line of defence*: regular management functions that implement controls (including policies, procedures, delegation of authority) designed to achieve objectives and manage risk;
- *Second line of defence:* functions that oversee risks (including enterprise risk management, internal control frameworks, results-based or performance management and other organization-specific management oversight processes) and ensure that first line controls are operating as intended;
- *Third line of defence*: independent oversight functions (including internal audit, investigations, inspection and evaluation) that provide objective assurance and other advice on the effectiveness of governance, risk management and internal controls.[a]


GOVERNING BODY
SENIOR MANAGEMENT
OVERSIGHT COMMITTEE
EXTERNAL AUDIT
JOINT INSPECTION UNIT
1ST LINE OF DEFENCE
Internal Control Activities:
- Operations Management
- Employees Owning/ Managing Risk
2ND LINE OF DEFENCE
Management Oversight:
- Internal Control Frameworks
- Enterprise Risk Management
- Results-based Management
3RD LINE OF DEFENCE
Independent Assurance and Advice:
- Internal Audit
- Inspection
- Evaluation
- Investigation

Adapted by JIU for the United Nations system from FERMA/ECIIA[b] Guidance on the 8th Company Law Directive, article 41

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[a] IIA Standards (2012): 2110 ('Governance'); 2120 ('Risk Management'); and 2130 ('Control'). These Standards require internal audit to evaluate and contribute to the improvement of governance, risk management and internal control processes.

[b] Federation of European Risk Management Associations (FERMA) and European Confederation of Institutes of Internal Auditing (ECIIA); see IIA, *The Three Lines of Defence and Effective Risk Management and Control*, IIA Position Paper, January 2013, p. 2.

ANNEX V: INTERNAL AUDIT BUDGETS, STAFFING AND OUTPUTS

A. Proportion of internal audit service budget to total budget, by organization (2015) (in USD thousands)

(USD thousands)	Organization			Internal Audit			Total (percentage)
	RB	XB	Total (A)	RB	XB	Total (B)	(B/A)
UN Secretariat	[redacted]	[redacted]	12,189,632	[redacted]	[redacted]	35,139 *	0.29 *
UNHCR	[redacted]	[redacted]	6,234,449		[redacted]	7,232	0.12
UNDP	[redacted]	[redacted]	5,516,014	[redacted]	[redacted]	14,256	0.26
UNICEF	[redacted]	[redacted]	4,954,863	[redacted]		7,600	0.15
WFP		[redacted]	8,428,700	[redacted]	[redacted]	4,384 **	0.05
WHO	[redacted]	[redacted]	3,977,000	[redacted]		3,278	0.08
FAO	[redacted]	[redacted]	1,221,500	[redacted]		3,433	0.28
UNFPA	[redacted]	[redacted]	991,359	[redacted]		3,221	0.32
LARGE (group average)							**0.19% *****
UNRWA			744,000	[redacted]	[redacted]	3,888	0.52
ILO	[redacted]	[redacted]	741,350	[redacted]	[redacted]	2,107	0.28
UNESCO	[redacted]	[redacted]	762,500	[redacted]	[redacted]	1,153	0.15
UNOPS		[redacted]	691,354		[redacted]	1,339	0.19
IAEA	[redacted]	[redacted]	620,015	[redacted]		1,116	0.18
WIPO	[redacted]	[redacted]	412,740	[redacted]		895	0.22
UNIDO	[redacted]	[redacted]	381,049	[redacted]		850	0.22
UN-Women	[redacted]	[redacted]	358,467	[redacted]		1,500	0.42
MEDIUM							**0.27%**
UNAIDS	[redacted]	[redacted]	287,420	[redacted]		660	0.23
ICAO	[redacted]	[redacted]	202,947	[redacted]		555 ****	0.27
ITU	[redacted]		171,617	[redacted]		648	0.38
WMO	[redacted]	[redacted]	96,000	[redacted]		105	0.11
IMO	[redacted]	[redacted]	73,573	[redacted]		340	0.46
UPU	[redacted]	[redacted]	60,981	[redacted]		130	0.21
SMALL							**0.28%**
Weighted average							**0.25%**

For the purposes of the present report, the organizations were classed as "large" (annual budget > USD 900 million), "medium" (annual budget = USD 300 million to 900 million) and "small" (annual budget < USD 300 million). This grouping was used consistently throughout the report for analytical purposes.

RB: Regular budget resources; XB: Extrabudgetary resources

* Includes the amount of USD 7,232 million for UNHCR internal audit services.

** WFP's internal audit budget comes from its Programme Support and Administrative (PSA) budget.

*** This weighted average is calculated excluding the amount of USD 7,232 million for UNHCR internal audit services explained in (*).

**** Due to the co-location of different oversight activities in the Evaluation and Internal Audit Office, this is an estimate of the budget of the Office dedicated to internal audit work.

B. Proportion of internal audit service staff to all staff, by organization (2015)

	Organization			Internal Audit			Total (percentage)
	Professional	Support *	Total (A)	Professional	Support *	Total (B)	(B)/(A)
UN Secretariat	[redacted]	[redacted]	41,081	[redacted]	[redacted]	196 **	0.48 **
UNHCR	[redacted]	[redacted]	10,753	[redacted]	[redacted]	25 ***	-
UNDP	[redacted]	[redacted]	7,528	[redacted]	[redacted]	59	0.78
UNICEF	[redacted]	[redacted]	12,335	[redacted]	[redacted]	26	0.21
WFP	[redacted]	[redacted]	1,982	[redacted]	[redacted]	20	0.98
WHO	[redacted]	[redacted]	6,237	[redacted]	[redacted]	11	0.18
FAO	[redacted]	[redacted]	2,945	[redacted]	[redacted]	17	0.58
UNFPA	[redacted]	[redacted]	2,609	[redacted]	[redacted]	12	0.46
LARGE (group average)							0.52%
UNRWA	[redacted]	[redacted]	29,371	[redacted]	[redacted]	10	0.03
ILO	[redacted]	[redacted]	2,965	[redacted]	[redacted]	7	0.24
UNESCO	[redacted]	[redacted]	2,073	[redacted]		8	0.39
UNOPS	[redacted]	[redacted]	617	[redacted]		4	0.65
IAEA	[redacted]	[redacted]	1,939	[redacted]	[redacted]	7	0.36
WIPO	[redacted]	[redacted]	1,205	[redacted]	[redacted]	3	0.25
UNIDO	[redacted]	[redacted]	704	[redacted]	[redacted]	5	0.71
UN-Women			605	[redacted]		4	0.66
MEDIUM							0.41%
UNAIDS	[redacted]	[redacted]	826	[redacted]	[redacted]	3	0.36
ICAO	[redacted]	[redacted]	690	[redacted]	[redacted]	2 ****	0.35
ITU	[redacted]	[redacted]	738	[redacted]	[redacted]	4	0.49
WMO	[redacted]	[redacted]	270	[redacted]	[redacted]	3	1.11
IMO	[redacted]	[redacted]	291	[redacted]	[redacted]	4	1.37
UPU	[redacted]	[redacted]	255			0	0.00
SMALL							0.61%
Weighted average							0.51%

* Support staff include general service (G) and related staff, as well as field service staff.

** Includes 25 staff members dedicated to UNHCR internal audit services.

*** 25 staff members are under OIOS contracts and are not considered as UNHCR staff.

**** Due to the co-location of different oversight activities in the Evaluation and Internal Audit Office, this is an estimate of the number of staff dedicated to internal audit work.

C. Actual (2014) and budgeted (2015) internal audit outputs, by organization

Organization	2014	2015
	Number of internal audit outputs	Number of internal audit outputs
UN Secretariat	147	162
UNHCR*	21	38
UNDP	119	48
UNICEF	39	38
WFP	19	19
WHO	14	17
FAO	34	41
UNFPA	22	25
LARGE (group average)	52	49
UNRWA	14	15
ILO	14	12
UNESCO	13	14
UNOPS	30	48
IAEA	20	20
WIPO	5	7
UNIDO	4	7
UN-Women	8	8
MEDIUM	14	16
UNAIDS	6	6
ICAO	5	5
ITU	4	4
WMO	11	11
IMO	8	6
UPU	2	2
SMALL	6	6

* The numbers for the United Nations Secretariat have been adjusted to reflect internal audit outputs provided for UNHCR. This includes 21 outputs in 2014 and 38 outputs in 2015.

ANNEX VI: STAKEHOLDER PERCEPTIONS ON INTERNAL AUDIT

This annex contains a summary of stakeholder perceptions on the three key dimensions of internal audit:

- *Assurance*: Internal audit provides assurance on the governance, risk management and control processes of the organization that help it to achieve its strategic, operational, financial and compliance objectives.
- *Objectivity*: With commitment to integrity and accountability, internal audit provides value to the governing bodies and senior management as an objective source of independent advice.
- *Insight*: Internal audit is a catalyst for improving the effectiveness and efficiency of the organization by providing insight and recommendations based on analyses and assessments of data and business processes.

Depending on the particular item, all or some of the seven stakeholder groups identified for the present review were surveyed. Totals/percentages have been rounded and may not always equal the sum of the components.

A. ASSURANCE

Internal audit has successfully become a critical element of the accountability structure for the organization.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	Governing Bodies	External Auditors
Agree	78	51	60	78	54	54	59
Partially agree	22	35	30	11	33	31	19
Neither agree / disagree	0	6	4	11	4	5	0
Partially disagree	0	4	6	0	4	4	13
Disagree	0	3	0	0	4	3	3
Do not know	0	0	0	0	1	2	6
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The oversight committee is an effective part of the governing body's oversight mechanism.

(per cent)	Heads of IA/ Oversight	Oversight Committees	Executive Heads	Governing Bodies	External Auditors
Agree	35	67	63	48	48
Partially agree	41	21	0	24	21
Neither agree / disagree	18	9	25	11	3
Partially disagree	0	1	0	2	3
Disagree	0	1	13	3	7
Do not know	6	0	0	11	17
Total	**100**	**100**	**100**	**100**	**100**

The head of internal audit/oversight plays an important role in the organization and provides valuable assistance in helping the governing body to discharge its oversight responsibilities.

(per cent)	Heads of IA/ Oversight	Oversight Committees	Executive Heads	Governing Bodies
Agree	79	67	56	53
Partially agree	0	12	0	27
Neither agree / disagree	16	12	22	6
Partially disagree	0	4	11	6
Disagree	0	6	11	1
Do not know	5	0	0	7
Total	**100**	**100**	**100**	**100**

The work plan of internal audit appropriately addresses the highest risk areas of the organization.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	External Auditors
Agree	68	60	41	75	35	33
Partially agree	21	23	45	0	39	37
Neither agree / disagree	5	6	5	13	5	13
Partially disagree	5	7	5	0	10	7
Disagree	0	2	4	13	7	7
Do not know	0	2	0	0	5	3
Total	**100**	**100**	**100**	**100**	**100**	**100**

The work plan of internal audit provides a good level of overall assurance on internal control, risk management and governance processes across the entire organization.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	External Auditors
Agree	58	46	33	75	42	37
Partially agree	37	34	52	0	36	40
Neither agree / disagree	0	8	3	13	5	10
Partially disagree	0	7	8	0	7	0
Disagree	5	6	3	13	4	10
Do not know	0	0	0	0	5	3
Total	**100**	**100**	**100**	**100**	**100**	**100**

Internal audit provides high quality auditing services that produce professional, reliable evidence-based results.

(per cent)	Oversight Committee	Senior Management
Agree	52	40
Partially agree	42	43
Neither agree / disagree	3	8
Partially disagree	3	5
Disagree	0	3
Do not know	0	1
Total	**100**	**100**

Internal audit provides leading industry and technological practices and innovative approaches in auditing.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	Governing Bodies	External Auditors
Agree	53	47	31	63	20	23	27
Partially agree	37	25	44	13	27	34	33
Neither agree / disagree	5	9	16	13	29	15	13
Partially disagree	5	10	5	0	6	7	3
Disagree	0	4	4	13	6	5	10
Do not know	0	5	0	0	12	17	13
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

What, in your view, are the most important forms of audit services offered by internal audit? Please rank in order of preference, from 1 (most needed) to 4 (least necessary) (but may still be important).

	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	Governing Bodies	External Auditors
Compliance audits	2.28	1.95	1.77	1.00	1.78	1.70	1.69
Operational / Performance	1.65	1.39	1.83	2.13	1.94	1.66	1.93
Information management IT	2.94	2.82	2.87	3.43	3.22	3.32	2.77
Advisory services	3.11	3.16	3.34	3.13	2.67	3.12	3.30

B. OBJECTIVITY

The internal audit function is independent and has sufficient power and authority to gain access to people and information needed to do its work.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	External Auditors
Agree	94	69	45	100	73	47
Partially agree	6	26	40	0	12	34
Neither agree / disagree	0	1	5	0	7	3
Partially disagree	0	1	7	0	2	6
Disagree	0	3	3	0	5	9
Do not know	0	0	0	0	1	0
Total	**100**	**100**	**100**	**100**	**100**	**100**

Have there been cases where internal auditors were prevented access to people, documents or information that you consider a serious violation of independence, during last 5 years?

(per cent)	Heads of IA/ oversight	IA Staff
Yes	0	3
No	100	98
Total	**100**	**100**

Have there been cases of management pressure to change audit reports, opinions or recommendations that you consider a serious violation of independence, during last 5 years?

(per cent)	Heads of IA	IA Staff
Yes	6	7
No	94	93
Total	**100**	**100**

The internal audit function is appropriately resourced (staff and funding) to carry out its work in the organization.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	Governing Bodies	External Auditors
Agree	32	27	24	44	36	27	13
Partially agree	37	25	46	33	20	27	30
Neither agree / disagree	0	7	9	11	15	14	3
Partially disagree	11	19	13	0	6	6	20
Disagree	21	20	8	11	9	10	10
Do not know	0	2	0	0	14	16	23
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The level of transparency and sharing of audit results and reports is satisfactory for the organization.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management	Governing Bodies	External Auditors
Agree	74	54	60	78	55	37	62
Partially agree	26	21	35	11	26	36	14
Neither agree / disagree	0	13	4	11	6	6	3
Partially disagree	0	4	0	0	6	13	7
Disagree	0	3	1	0	5	4	3
Do not know	0	5	0	0	2	4	10
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The oversight committee is able to effectively support the work and independence of internal audit.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Governing Bodies
Agree	71	46	76	41
Partially agree	12	13	23	22
Neither agree / disagree	12	12	1	14
Partially disagree	0	6	0	3
Disagree	0	7	0	3
Do not know	6	16	0	17
Total	**100**	**100**	**100**	**100**

The charter of the oversight committee provides the mandate, authority and reporting relationships necessary for an effective oversight committee.

(per cent)	Heads of IA/ Oversight	Oversight Committees	External Auditors
Agree	53	70	66
Partially agree	29	22	14
Neither agree / disagree	12	8	0
Partially disagree	0	0	0
Disagree	0	0	3
Do not know	6	0	17
Total	**100**	**100**	**100**

C. INSIGHT

How would you rate the effectiveness of the internal audit function today?

(per cent)	**Heads of IA/ Oversight**	**IA Staff**	**Oversight Committees**	**Executive Heads**	**Senior Management**	**Governing Bodies**	**External Auditors**
Very effective	33	15	35	67	30	20	17
Somewhat effective	67	73	53	22	55	65	70
Neither effective/ineffective	0	4	7	0	8	10	7
Somewhat ineffective	0	8	2	0	4	4	3
Very ineffective	0	0	3	0	2	2	3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Internal audit is a partner at a strategic level and contributes to the achievement of the objectives of the organization.

(per cent)	**Oversight Committees**	**Governing Bodies**	**External Auditors**
Agree	35	51	50
Partially agree	41	29	21
Neither agree / disagree	11	8	11
Partially disagree	10	5	4
Disagree	3	4	7
Do not know	0	3	7
Total	**100**	**100**	**100**

Internal audit serves as a catalyst for change and improvement within the organization.

(per cent)	**Heads of IA/ Oversight**	**IA Staff**	**Senior Management**
Agree	44	46	43
Partially agree	44	31	30
Neither agree / disagree	11	12	11
Partially disagree	0	4	8
Disagree	0	7	7
Do not know	0	1	1
Total	**100**	**100**	**100**

Internal audit is forward looking and its work supports and, is aligned with, strategic priorities and current objectives of the organization.

(per cent)	**Heads of IA/ Oversight**	**IA Staff**	**Oversight Committees**	**Executive Heads**	**Senior Management**	**Governing Bodies**	**External Auditors**
Agree	63	62	47	75	41	41	43
Partially agree	26	19	37	0	29	34	40
Neither agree / disagree	5	7	8	13	14	6	3
Partially disagree	5	5	5	0	8	6	0
Disagree	0	7	3	13	6	4	7
Do not know	0	1	0	0	3	8	7
Total	**100**	**100**	**100**	**100**	**100**	**10%**	**100**

Internal audit is appropriately knowledgeable about the organization's strategy, business and initiatives, and adaptive to the needs of the organization.

(per cent)	Heads of IA/ Oversight	IA Staff	Executive Heads	Senior Management
Agree	84	50	88	47
Partially agree	11	43	13	29
Neither agree / disagree	5	4	0	12
Partially disagree	0	1	0	6
Disagree	0	2	0	5
Do not know	0	0	0	1
Total	**100**	**100**	**100**	**100**

The head of internal audit is seen as a strong leader, someone who exemplifies and advocates for the profession.

(per cent)	IA Staff	Oversight Committees	Executive Heads	External Auditors
Agree	72	58	67	47
Partially agree	6	21	11	17
Neither agree / disagree	8	16	11	7
Partially disagree	3	1	0	0
Disagree	9	4	11	7
Do not know	2	0	0	23
Total	**100**	**100**	**100**	**100**

The head of internal audit/oversight is a valued and trusted member of the organization's senior management team and provides frank and useful advice to management.

(per cent)	Heads of IA/ Oversight	Executive Heads	Senior Management
Agree	68	67	54
Partially agree	32	0	18
Neither agree / disagree	0	11	17
Partially disagree	0	11	1
Disagree	0	11	2
Do not know	0	0	8
Total	**100**	**100**	**100**

Internal audit management and staff are viewed as professional, competent and objective in their work; internal audit has a culture of professionalism.

(per cent)	Heads of IA/ Oversight	IA Staff	Senior Management
Agree	79	58	50
Partially agree	16	23	30
Neither agree / disagree	5	8	11
Partially disagree	0	0	3
Disagree	0	1	4
Do not know	0	9	2
Total	**100**	**100**	**100**

Oversight committee members are highly experienced professionals who add value to executive management and the governing body's oversight mechanisms.

(per cent)	Heads of IA/oversight	Staff IA	Exec. Heads	Gov. Bodies	Ext. Audit
Agree	76	29	50	55	55
Partially agree	6	18	13	18	7
Neither agree / disagree	12	17	25	7	3
Partially disagree	0	10	0	2	7
Disagree	0	6	13	3	7
Do not know	6	19	0	15	21
Total	**100**	**100**	**100**	**100**	**100**

The oversight committee is an important source of guidance and advice for the internal audit function.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Governing Bodies
Agree	53	29	76	63	41
Partially agree	29	28	23	0	22
Neither agree / disagree	12	19	1	25	14
Partially disagree	0	7	0	0	3
Disagree	0	3	0	13	3
Do not know	6	15	0	0	17
Total	**100**	**100**	**100**	**100**	**100**

Internal audit reports are clear and of high quality.

(per cent)	Oversight Committees	Executive Heads	Senior Management	External Auditors
Agree	51	67	47	45
Partially agree	40	22	31	48
Neither agree / disagree	4	11	8	3
Partially disagree	5	0	9	0
Disagree	0	0	2	3
Do not know	0	0	2	0
Total	**100**	**100**	**100**	**100**

Internal audit recommendations are insightful, impactful and constructive.

(per cent)	Heads of IA/ Oversight	IA Staff	Oversight Committees	Executive Heads	Senior Management
Agree	78	58	61	89	29
Partially agree	17	36	29	0	48
Neither agree / disagree	0	2	5	11	13
Partially disagree	6	3	5	0	6
Disagree	0	0	0	0	3
Do not know	0	0	0	0	1
Total	**100**	**100**	**100**	**100**	**100**

ANNEX VII: SIZE AND COMPOSITION OF OVERSIGHT COMMITTEES

	No. of positions on Committee	Current Committee members with work experience in the United Nations	Required number of Committee members with financial or audit experience	Committee members required to have subject or programme experience	Committee meetings - number of days per year (average 2013-2014)
UN Secretariat	5		100%	100%	12
UNHCR	5	60%			9
UNDP	5	80%	60%		11
UNICEF	5	80%			6
WFP	5	20%			9
WHO	5	20%			9
FAO	5	20%			6
UNFPA	5	50%	20%		5
LARGE (group average)	5	49%			
UNRWA	4	100%	100%	100%	10
ILO	5	40%			4.5
UNESCO	5	40%	20%		6
UNOPS	3		100%	100%	6
WIPO	7	14%	14%	14%	18.5
UN-Women	5	80%			0
MEDIUM	5	55%			
ICAO	7	29%			4.5
ITU	5	80%			3.5
WMO	7	71%	29%	29%	2
UPU	5	100%	20%	20%	1
SMALL	6	70%			

Annex VIII: Overview of actions to be taken by participating organizations on the recommendations of the Joint Inspection Unit
JIU/REP/2016/8

		Intended impact		United Nations, its funds and programmes															Specialized agencies and IAEA													
			CEB	United Nations*	UNAIDS	UNCTAD	ITC	UNDP	UNEP	UNFPA	UN-Habitat	UNHCR	UNICEF	UNODC	UNOPS	UNRWA	UN-Women	WFP	FAO	IAEA	ICAO	ILO	IMO	ITU	UNESCO	UNIDO	UNWTO	UPU	WHO	WIPO	WMO
Report	For action		☐	☒	☒	☐	☐	☒	☐	☒	☐	☒	☒	☐	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☒	☐	☒	☒	☒	☒
	For information		☒	☐	☐	☒	☒	☐	☒	☐	☒	☐	☐	☒	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☒	☐	☐	☐	☐
Recommendation 1		a	■	L	L	■	■	■	■	L	■	■	L	■	L	■	L	■	L	L	L	L	L	L	L	L	■	L	L	L	L
Recommendation 2		a	■	E	E	■	■	E	■	E	■	E	E	■	E	E	E	■	E	E	■	E	E	E	E	E	■	E	E	E	E
Recommendation 3		a	■	E	E	■	■	■	■	■	■	E	■	■	E	E	E	■	■	E	■	■	■	E	E	E	■	■	E	■	■
Recommendation 4		c	■	■	E	■	■	■	■	■	■	E	E	■	E	E	E	E	■	E	E	E	E	E	E	E	■	E	■	E	E
Recommendation 5		b	■	E	E	■	■	E	■	E	■	E	E	■	E	E	E	E	E	E	E	E	E	E	E	E	■	E	E	E	E
Recommendation 6		e	■	E	E	■	■	E	■	E	■	E	E	■	E	E	E	E	E	E	E	E	E	E	E	E	■	E	E	E	E
Recommendation 7		a	■	■	■	■	■	■	■	■	■	■	■	■	■	E	■	■	■	■	E	■	E	■	■	■	■	E	■	■	■
Recommendation 8		f	■	E	E	■	■	■	■	■	■	■	■	■	■	E	■	■	■	■	E	■	E	■	E	E	■	■	E	■	■
Recommendation 9		a	■	L	L	■	■	L	■	L	■	■	L	■	L	L	L	L	L	L	L	L	L	L	L	L	■	L	L	L	L

Legend: **L:** Recommendation for decision by legislative organ **E:** Recommendation for action by executive head

■ : Recommendation does not require action by this organization

Intended impact: **a:** enhanced transparency and accountability **b:** dissemination of good/best practices **c:** enhanced coordination and cooperation **d:** strengthened coherence and harmonization **e:** enhanced control and compliance **f:** enhanced effectiveness **g:** significant financial savings **h:** enhanced efficiency **i:** other * As listed in ST/SGB/2015/3.